ALJ REGIONAL HOLDINGS, INC.

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Annual Report for the
Fiscal Year Ended
September 30, 2011

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ALJ REGIONAL HOLDINGS, INC.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

The statements included in this Annual Report for the year ended September 30, 2011 (the "Report") regarding future financial performance and results and other statements that are not historical facts, including, among others, the statements regarding the Company's ability to continue to fund its operations and service its indebtedness, ability to improve operating efficiencies at the steel mill, and ability to offset future income against net operating loss carryovers, constitute forward-looking statements. The words "believes," "intends," "expects," "anticipates," "projects," "estimates," "predicts," and similar expressions are also intended to identify forward-looking statements. These forward-looking statements are based on current expectations and are subject to risks and uncertainties. Actual results or events could differ materially from those set forth or implied by such forward-looking statements and related assumptions due to certain important factors, including, without limitation, the following: (i) cyclical changes in market supply and demand for steel, (ii) general economic conditions affecting steel consumption, (iii) U.S. or foreign trade policy affecting the price of imported steel, (iv) governmental monetary or fiscal policy, (v) increased price competition brought about by excess steelmaking capacity and imports of low priced steel, (vi) continued consolidation in the steel industry, resulting in larger producers with much greater market power to affect price and/or supply, (vii) changes in the availability or cost of steel scrap, (viii) periodic fluctuations in the availability and cost of electricity, natural gas or other utilities, (ix) the occurrence of unanticipated equipment failures and plant outages or the occurrences of extraordinary operating expenses, (x) actions by the Company's competitors, (xi) margin compression resulting from the Company's inability to pass through to its customers, price increases or surcharges, (xii) the increased cost of raw materials and supplies, (xiii) loss of business from one or more major customers or end-users, (xiv) labor unrest, work stoppages and/or strikes involving the Company's workforce, those of its important suppliers or customers, or those affecting the steel industry in general, (xv) the impact on the Company's production or upon the production or needs of its important suppliers or customers of the weather, (xvi) the impact of, or changes in, environmental laws or in the application of other legal or regulatory requirements upon the Company's production processes or costs of production or upon those of its suppliers or customers, including actions by government agencies, such as the U.S. Environmental Protection Agency or the Kentucky Department for Environmental Protection, (xvii) private or governmental liability claims or litigation, (xviii) changes in interest rates or other borrowing costs, or the effect of existing loan covenants or restrictions upon the cost or availability of credit to fund operations or take advantage of other business opportunities, (xix) changes in the Company's business strategies or development plans which it may adopt or which may be brought about in response to actions by its suppliers or customers, any (xx) difficulties of integrating any acquisition the Company may contemplate. The Company is also subject to general business risks, including management's success in continuing to settle the Company's outstanding obligations from its prior business activities, results of tax audits, adverse state, federal or foreign legislation and regulation, changes in general economic factors, the Company's ability to retain and attract key employees, acts of war or global terrorism, and unexpected natural disasters. Any forward-looking statements included in this Report are made as of the date hereof, based on information available to the Company as of the date hereof, and, the Company assumes no obligation to update any forward-looking statements.

PART A

GENERAL COMPANY INFORMATION

ALJ Regional Holdings, Inc. ("ALJ" or the "Company") has its principal offices at:

244 Madison Avenue, PMB 358
New York, NY 10016
Phone: (212) 883-0083
Fax: (606) 929-1261

References to the "Company," "we," "us" and "our" are to the consolidated operations of ALJ, including the operations of its subsidiaries, except to the extent the context is intended to refer only to ALJ. The Company was originally incorporated in the State of Delaware under the name Nuparent, Inc. on June 22, 1999. The Company's name was changed to YouthStream Media Networks, Inc. on June 24, 1999 and that name was used through October 23, 2007. The Company's name was changed to ALJ Regional Holdings, Inc. on October 23, 2007.

The Company's investor relations contact is Jess Ravich, the Chairman of the Board. Mr. Ravich can be reached at (310) 789-5741.

The Company's transfer agent is American Stock Transfer & Trust Company whose address and phone number are:

American Stock Transfer & Trust Company
Operations Center
6201 15th Avenue
Brooklyn, NY 11219
(718) 921-8293

American Stock Transfer & Trust Company is registered under the Securities and Exchange Act of 1934.

PART B

SHARE STRUCTURE AND ISSUANCE HISTORY

The Company has only two classes of securities; common stock (par value $0.01) and preferred stock (par value $0.01), the details of which are disclosed in the table below.

	Common Stock Period End Date			**Preferred Stock Period End Date**		
	September 30, 2011	September 30, 2010	September 30, 2009	September 30, 2011	September 30, 2010	September 30, 2009
Number of Shares Authorized	100,000,000	100,000,000	100,000,000	5,000,000	5,000,000	5,000,000
Number of Shares Outstanding	56,934,040	49,729,574	48,665,104	0	374,556	374,556

Of the 5,000,000 shares of preferred stock authorized, 1,000,000 shares have been designated as Series A Preferred Stock, none of which are currently issued and outstanding and 550,000 shares have been designated as Series B Preferred Stock, none of which are currently issued and outstanding. As of September 30, 2011, there were 210 holders of record of the Company's common stock.

Since June 24, 2005, the Company's common stock has traded on the "Pink Sheets." The Company's common stock was traded under the symbol "YSTM.PK" from June 24, 2005 through December 7, 2006. On December 8, 2006, the Company's common stock began trading under the symbol "ALJJ.PK." Prior to June 24, 2005, the Company's common stock traded on the OTC Bulletin Board under the symbol "YSTM." The following table sets forth the high and low closing bid prices for the common stock as provided by Pinksheets.com. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

	High	**Low**
Fiscal 2011		
First Quarter 12/31/10	0.33	0.26
Second Quarter 3/31/11	0.32	0.26
Third Quarter 6/30/11	0.53	0.36
Fourth Quarter 9/30/11	0.79	0.50
Fiscal 2010		
First Quarter 12/31/09	0.23	0.15
Second Quarter 3/31/10	0.30	0.15
Third Quarter 6/30/10	0.39	0.26
Fourth Quarter 9/30/10	0.32	0.23

To date, the Company has not declared or paid any cash dividends on its common stock. The Board of Directors of the Company (the "Board") does not intend to declare any dividends in the foreseeable future but instead intends to retain earnings for use in the Company's business operations, including any potential acquisitions.

Stockholder Rights Plan

On May 13, 2009, ALJ adopted a stockholder rights plan (the "Rights Plan") designed to preserve the value of certain tax assets primarily associated with its net operating loss carry-forwards ("NOLs") and built in losses under Section 382 ("Section 382") of the Internal Revenue Code of 1986, as amended (the "Code").

At September 30, 2011, ALJ had approximately $259 million in net operating losses and the use of such losses to offset federal income tax would be limited, if ALJ experiences an "ownership change" under Section 382. This would occur if stockholders owning (or deemed under Section 382 to own) 5% or more of ALJ's stock by value increase their collective ownership of the aggregate amount of ALJ's stock by more than 50 percentage points over a defined period of time. The Rights Plan was adopted to reduce the likelihood of an "ownership change" occurring as defined by Section 382.

In connection with the Rights Plan, ALJ declared a dividend of one preferred share purchase right for each share of its common stock outstanding as of the close of business on May 21, 2009. Pursuant to the Rights Plan, any stockholder or group that acquires beneficial ownership of 4.9 percent or more of ALJ's outstanding stock (an "Acquiring Person") without the approval of the Board would be subjected to

significant dilution of its holdings. Any existing stockholder holding 4.9% or more of ALJ's stock will not be considered an Acquiring Person unless such stockholder acquires additional stock of ALJ; provided, however, that existing stockholders actually known to ALJ to hold 4.9% or more of its stock as of April 30, 2009 will be permitted to purchase up to an additional 5% of ALJ's stock without triggering the Rights Plan. In addition, in its discretion, the Board may exempt certain persons whose acquisition of securities is determined by the Board not to jeopardize ALJ's deferred tax assets and may also exempt certain transactions. The Rights Plan will continue in effect until May 13, 2019, unless it is terminated or redeemed earlier by the Board. The Rights Plan was approved by ALJ's stockholders at the annual meeting of stockholders on June 4, 2009.

In addition to the Rights Plan, ALJ also adopted an amendment to its certificate of incorporation that imposes restrictions on transfer of stock that may result in an ownership change under Section 382.

PART C

BUSINESS INFORMATION

CURRENT BUSINESS ACTIVITIES

The Company's business is conducted through its majority-owned subsidiary, KES Acquisition Company ("KES"), which owns and operates a steel mini-mill near Ashland, Kentucky (the "Mill"). As a mini-mill producer of bar flats, the Company recycles steel from scrap, a process designed to result in lower production costs than those of integrated steel mills, which produce steel by processing iron ore and other raw materials in blast furnaces. Bar flats are produced to a variety of specifications and fall primarily into two general quality levels - merchant bar quality steel bar flats ("MBQ Bar Flats") for generic types of applications, and special bar quality steel bar flats ("SBQ Bar Flats"), where more precise customer specifications require the use of various alloys, customized equipment and special production procedures to insure that the finished product meets critical end-use performance characteristics.

The Mill manufactures over 2,600 different bar flat items which are sold to volume niche markets, including original equipment manufacturers ("OEMs"), cold drawn bar converters, steel service centers and the leaf-spring suspension market for light and heavy-duty trucks, mini-vans and utility vehicles. The Mill was specifically designed to manufacture wider and thicker bar flats, up to three inches in thickness and twelve inches in width, that are required by these markets. In addition, the Mill employs a variety of specially designed equipment which is necessary to manufacture SBQ Bar Flats to the specifications of the Mill's customers.

The Company's business strategy is to increase its share of the SBQ Bar Flat market and to expand into related niche market applications where it can supply products for special customer needs. The Company plans to expand its business primarily by increasing the number of products it sells to existing customers and the development of new customers. In addition, the Company intends to seek to consummate strategic transactions as they arise.

Pursuant to a Management Services Agreement (the "Management Agreement") with Pinnacle Steel, LLC ("Pinnacle"), the operations of the Mill are managed by Pinnacle. Pinnacle receives an annual fee of $700,000, payable monthly, and bonus payments based on 16.6% of defined earnings before interest, taxes, depreciation and amortization ("EBITDA") in excess of $6,000,000 for the fiscal years ended September 30, 2005 and thereafter. The Management Agreement is effective through September 30, 2015, subject to earlier termination based on the financial performance of the Mill. Further, the term of the Management Agreement may be extended for an additional year, up to a maximum of three years, for each fiscal year ending September 30, 2012, 2013 and 2014 in which EBITDA exceeds $15,000,000. Pinnacle has significant experience and expertise in the steel industry.

Industry Conditions

The U.S. steel industry has historically been and continues to be highly cyclical in nature, influenced by many factors, including periods of economic growth or recession, strength or weakness of the U.S. dollar, worldwide production capacity, worldwide steel demand, and levels of steel imports. The steel industry has also been affected by various company-specific factors, such as a company's ability or inability to adapt to and deal with technological change, plant inefficiency and high labor costs. The U.S. has traditionally been a net importer of steel.

The U.S. steel industry has experienced many changes recently as a result of consolidation. Consolidations and similar developments caused formerly idled or inefficient production facilities to come back into the market with substantially lower capital costs, with renegotiated labor agreements containing fewer work rules and reduced labor costs, and shorn of many previously burdensome health care and retirement legacy costs and other liabilities. The result of this restructuring and consolidation, which we expect to continue, is a less competitive U.S. steel market, with a narrowing of production cost differentials between mini-mills and some of the integrated mills. Moreover, with the integrated mills' lesser dependence on scrap as a percentage of their metallic melt mix than the mini-mills, the traditional mini-mill cost advantage over integrated mill steel making may be reduced or eliminated when scrap prices are at high levels.

Manufacturing Operations

The Mill recycles steel by melting steel scrap in a 50-ton electric arc furnace. The molten steel is then taken to the ladle metallurgy facility where a variety of alloys are added to make different grades of steel in accordance with customer specifications. The refined molten steel is then poured into a continuous caster to produce continuous strands of steel with cross-sectional dimensions ranging from approximately 16 to 54 square inches. The Mill can utilize up to four continuous strands in producing certain sizes. The strands are cut to produce billets of specified length which are reheated to approximately 2,300 degrees Fahrenheit and fed through a series of roll stands to reduce their size and form them into steel bar sections. These sections emerge from the rolling mill, are uniformly cooled on a cooling bed, and are cut to lengths specified by the customer. The cut bar flats are stacked into bundles ready for shipment.

The current production capacity of the Mill for finished products is approximately 200,000 short-tons per year. For the fiscal year ended September 30, 2011, the Mill sold 153,000 tons of finished goods, or 77% of its rolling capacity.

The Company transports its products by common carrier, generally shipping by truck and by rail. The Mill has railroad sidings at its facilities.

Primary Markets and Products

OEM Markets. The Company supplies bar flats to OEMs in the following markets: metal building, mower and plow blades, agricultural equipment, construction/fabricating, railroad cars, industrial chain manufacturers and trailer support beam flange manufacturers. The products furnished to these markets are primarily SBQ Bar Flats along with a mixture of MBQ Bar Flats. One of the key characteristics of the OEM markets is lot order size, which tend to be larger than the orders received from other markets, such as steel service centers. These larger orders typically result in improved operating efficiencies and longer term relationships with customers.

Cold Drawn Bar Converters Market. The Company sells its expanded range of SBQ hot rolled bar products to cold drawn bar manufacturers. The Company's product range, 1/4" through 3" in thickness and 1 1/2" through 12 1/2" in width, enables it to supply practically all the sizes needed by the converters. The converters remove the scale from the hot rolled bar and draw it through a die. The drawing reduces the cross section, improves surface, and produces a more exacting tolerance bar. The end product is sold either through distributors or directly to OEMs.

Steel Service Center Market. A significant percentage of all steel shipments to the end-user are distributed through steel service centers, making this the largest single market for steel manufacturers. The steel service center market encompasses all warehouses and distributors who buy steel to stock for their end use customers who buy in smaller volume than OEMs. The Company sells both MBQ and SBQ Bar Flats into this market.

Leaf-Spring Suspension Market. High tensile SBQ spring steel is produced to customer and industry specifications for use in leaf-spring assemblies. These assemblies are utilized in light, medium and heavy duty trucks, trailers, mini-vans and four-wheel drive vehicles with off-road capability. The trend toward tapered leaf-spring products and air-ride suspension continues. These products use somewhat less steel but they are manufactured from larger cross section bar flats that match the Company's manufacturing strengths.

Customers

The Company sells to over 350 customers, one of whom accounted more than 12% of sales for the twelve month period ended September 30, 2011. For the fiscal year ended September 30, 2011, the Company had four customers that accounted for approximately 22% of net sales, of which approximately $4.4 million was included in accounts receivable at September 30, 2011.

The Company's foreign sales as a percentage of total sales were 1% for the twelve month period ended September 30, 2011. These sales consisted of shipments to Canada and Mexico.

Marketing

The Company markets its products to new and existing customers in the United States and in certain foreign markets. Sales efforts are primarily performed by in-house sales personnel and augmented with manufacturers' representative companies.

Competition and Other Market Factors

The domestic and foreign steel industries are characterized by intense competition. The Company competes with steel-producing mills of similar size and operation within its market region and also larger mills producing similar products, such as Nucor Corporation, Commercial Metals Company, Gerdau Ameristeel, Gautier Steel, Steel Dynamics and Mittal Steel. The Company believes that the principal competitive factors affecting its business are quality, service, price and geographic location.

Raw Materials

Scrap and Billets

The principal raw material used in the Mill is ferrous scrap. Ferrous scrap is derived from, among other sources, discarded automobiles, appliances, structural steel, railroad cars and machinery. The purchase price of scrap is subject to market conditions that are beyond the control of the Company. Starting during the latter part of 2002 and continuing through August 2008, the price of scrap rose sharply to historic highs, largely as a result of foreign scrap demand, particularly from China and Turkey, a weak U.S. dollar that makes U.S. scrap exports more

attractive, and relatively static if not limited scrap availability in the U.S. However, in September 2008 the price of scrap dropped dramatically and scrap prices continued to be volatile through 2011.

The Mill is located in an area where scrap is generally available and therefore the Mill typically maintains less than one month of scrap supply. Historically, the Mill has generally been successful in passing on scrap cost increases through price increases, however, the effect of steel imports, market price competition, and market demand periodically limit the Company's ability to increase prices.

The Company purchases approximately 68% of its billets from the open market. During the twelve month period ended September 30, 2011, the Company had three suppliers that accounted for 69% of billet purchases. Each of the three suppliers individually provided approximately 37%, 17%, and 15% of billet purchases, respectively. An aggregate of $2.7 million owed to these three suppliers was included in accounts payable at September 30, 2011. The Company also purchases raw materials. For the fiscal year ended September 30, 2011, the Company had four suppliers that accounted for approximately 65% of raw materials purchases, of which approximately $3.7 million was included in accounts payable at September 30, 2011.

Energy Resources

Electricity. The Company has an electric service contract with Kentucky Power Company d/b/a American Electric Power, which is terminable upon 12 months' prior written notice.

Gas. The Mill uses approximately 1.5 decatherms of natural gas per day. A decatherm is equivalent to 1 million BTUs or 1,000 cubic feet of natural gas. The Company has a pipeline delivery contract with Columbia Gas of Kentucky, which delivers natural gas to the Mill from providers primarily located on the Gulf Coast.

Other. The Mill uses oxygen, nitrogen and argon for production purposes. These materials are purchased from Air Products & Chemicals, Inc.

Employees

As of September 30, 2011, ALJ had two employees, its Chief Executive Officer and its Chief Financial Officer, performing services dedicated primarily to general corporate and administrative matters. As of September 30, 2011, the Mill employed 138 individuals, approximately 78% of whom are members of the United Steelworkers of America. In May 2008, the Mill renegotiated its collective bargaining agreement, which now expires in May 2013. We believe that the wage rates and benefits at the Mill are competitive with other mini-mills.

Property

The Company's corporate address is 244 Madison Avenue, PMB 358, New York, NY 10016.

The Mill's operations are located on approximately 55 acres of land near Ashland, Kentucky, next to an interstate highway and a rail line.

Environmental and Regulatory Matters

The operations of the Mill are subject to substantial and evolving local, state and federal environmental, health and safety laws and regulations concerning, among other things, emissions to the air, discharges to surface and ground water and to sewer systems, and the generation, handling, storage, transportation, treatment and disposal of toxic and hazardous substances. In particular, the Mill is dependent upon both state and federal permits regulating discharges into the air or into the water in order to be permitted to operate its facilities.

Minority Interests

A portion of the net income for KES is allocable to minority shareholders. This amount was 19.79% for the years ended September 30, 2011, 2010 and 2009. For the twelve months ended September 30, 2011, 2010 and 2009 the net income allocated to minority interest – related party was approximately $1.7 million, $1.3 million, and $65,000, respectively. On September 30, 2011, KES repurchased 3.66% of the outstanding shares of Series B Common Stock. As a result, the amount allocated to minority shareholders decreased to 16.13%.

RISK FACTORS

The following risk factors and other information included in this Report should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks actually occur, our business, financial condition and operating results could be significantly harmed.

Risks Related to Our Business

Payments under our Tax Sharing Agreement are uncertain.

Our subsidiary, KES is included in the consolidated federal income tax return filed by ALJ as the common parent. KES has entered into a Tax Sharing Agreement with ALJ, pursuant to which it has agreed to pay ALJ an amount equal to 50% of its "separate company tax liability" (as defined in the agreement), subject to compliance with the Credit Facility. Periodic tax sharing payments from KES are currently the sole source of funds distributed to ALJ from the operations of the Mill. The tax sharing payments are necessary to fund corporate overhead at the ALJ level and the receipt of such payments is dependent upon the availability of sufficient cash resources from Mill operations. There can be no assurance that there will be sufficient levels of cash resources generated from Mill operations to support tax sharing payments or to pay our operating expenses.

Our industry is cyclical and prolonged economic declines could have a material adverse effect on our business.

Demand for most of our products is cyclical in nature and sensitive to general economic conditions. Our business supports cyclical industries such as commercial construction, energy, and manufacturing all of which have been adversely impacted by the recent economic downturn. As a result, our results of operations and cash flows may suffer. Because steel mills generally have high fixed costs, reduced volumes result in operating inefficiencies. A further decline in the U.S. economy could materially adversely affect our business, results of operations and financial condition and cash flows.

Our level of production and our sales and earnings are subject to significant fluctuations.

The U.S. steel industry recently experienced a significant economic downturn. This decline led to deterioration in backlog and, therefore, overcapacity in producing mills worldwide.

The price of steel and steel products may fluctuate significantly due to many factors beyond our control. Such fluctuation would directly affect our levels of production, sales and earnings. The domestic steel industry has been highly cyclical in nature, influenced by a combination of factors, including periods of economic growth or recession, strength or weakness of the U.S. dollar, worldwide production capacity, levels of steel imports and applicable tariffs. The demand for steel products is generally affected by macroeconomic fluctuations in the U.S. and the global economies in which steel companies sell their products. We have experienced a drop in demand for our products as a result of the current economic downturn and further economic decline, stagnation, or currency fluctuations could further decrease the demand for products or increase the amount of imports of steel into the U.S., which could negatively impact our sales, margins and profitability. In addition, prolonged weakness in any industries in which we sell our products could materially adversely affect our results of operations and cash flows.

Our business requires maintenance expenditures and may require capital investment which we may be unable to provide.

We require capital for, among other purposes, maintaining the condition of KES' existing equipment and maintaining compliance with environmental laws and regulations. From time to time, KES may also require capital to acquire new equipment. To the extent that cash generated internally and cash available under our credit facility is not sufficient to fund capital requirements, KES will require additional debt and/or equity financing. However, this type of financing may not be available or, if available, may not be on satisfactory terms, particularly given the current credit crisis. Future debt financings, if available, will require the approval of KES' existing lenders and may result in increased interest and amortization expense. In addition, future debt financings by KES may limit our ability to withstand competitive pressures and render us more vulnerable to economic downturns. If KES fails to generate or obtain sufficient additional capital in the future, KES could be forced to reduce or delay capital expenditures, sell assets or restructure or refinance its indebtedness, which in turn would also have an adverse effect on the amount of the tax sharing payments KES makes to us.

Unexpected equipment failures or unanticipated events may lead to production curtailments or shutdowns resulting in lost revenues and increased costs.

Interruptions in production capabilities will inevitably increase production costs and reduce KES' sales and earnings. KES' manufacturing processes depend on critical pieces of steelmaking equipment, such as furnaces, continuous casters and rolling equipment, as well as electrical equipment, such as transformers, and this equipment may, on occasion, be out of service as a result of unanticipated failures. In the future, KES may experience material plant shutdowns or periods of reduced production as a result of equipment failures. Furthermore, any interruption in production capability may require KES to make large capital expenditures to remedy the situation, which could have a negative effect on our profitability and cash flows. In addition to equipment failures, KES' facilities are also subject to the risk of catastrophic loss due to unanticipated events such as fires, explosions, adverse weather conditions or transportation interruptions. KES maintains business interruption insurance to offset these potential lost revenues or increased costs; however, there can be no assurance that our coverage is sufficient to fully offset the lost revenues or increased costs that we may experience. In addition to the revenue losses, longer-term business disruption could result in a loss of customers. If this were to occur, KES' future sales levels, and therefore profitability and cash flows, could be adversely affected, which in turn would also have an adverse effect on the amount of the tax sharing payments KES makes to us.

Competition from other materials may materially adversely affect our business.

In many applications, steel competes with other materials, such as aluminum, cement, composites, glass, plastic and wood. Increased use of these materials in substitution for steel products could materially adversely affect prices and demand for KES' steel products.

Environmental regulations impose substantial costs and limitations on operations.

KES is subject to various federal, state and local environmental, health and safety laws and regulations, and is required to maintain numerous permits and governmental approvals for operation, concerning issues such as air emissions, wastewater discharges, solid and hazardous waste management and disposal and the investigation and remediation of contamination. These laws and regulations are becoming increasingly stringent. While we believe that KES' facilities are in material compliance with all permits, governmental approvals, applicable environmental laws and regulations, the risks of substantial unanticipated costs and liabilities related to compliance with these permits, governmental approvals, laws and regulations are an inherent part of KES' business. It is possible that future conditions may develop, arise or be discovered that create new environmental compliance or remediation liabilities and costs. While we believe that we can comply with environmental legislation and regulatory requirements and that the costs of compliance have been included within budgeted cost estimates, compliance may prove to be more limiting and costly than anticipated. There can also be no assurance that KES' facilities will continue to operate in accordance with the conditions and restrictions established by the permits or approvals. Similarly, we cannot assure you that the requirements contained in such permits will not change or that KES' facilities will be able to renew or to maintain all permits and approvals required for continued operation of the facilities.

If any substances are found at KES' facilities that are classified by applicable environmental laws, ordinances or regulations as hazardous materials, we could become liable for the investigation and removal of those substances, regardless of their source. Failure to comply with these laws, ordinances or regulations, or any change in the requirements of these laws, ordinances or regulations could result in liabilities, imposition of cleanup liens and fines and large expenditures to bring the facilities into compliance. We may also be subject from time to time to legal proceedings brought by private parties or governmental agencies with respect to environmental matters, including matters involving alleged property damage or personal injury.

The potential presence of radioactive materials in the scrap that we melt in our electric arc furnaces presents significant risks.

The potential presence of radioactive materials in our scrap supply presents significant economic risks. The cost to clean up the contaminated material and the loss of revenue resulting from the loss in production time could be material to our business, results of operations and financial condition. While we have three detection devices at the Mill, radioactive scrap could go undetected. If we fail to detect radioactive material in the scrap we receive, we may incur significant costs to clean up the contamination of our facilities and to dispose of the contaminated material, which could have a material adverse effect on our results of operation and financial condition. In addition, there can be no assurance that we will have sufficient financial resources to fund the cleanup costs in such event, which could result in a potential suspension or curtailment of operations at the Mill.

The results of our operations are sensitive to volatility in steel prices and changes in the cost of raw materials, particularly scrap steel.

We rely, to a substantial extent, on outside vendors to supply KES with raw materials that are critical to the manufacture of its products. KES acquires its primary raw material, steel scrap, from brokers. Although we believe that the supply of scrap is adequate to operate KES' facilities, we are subject to risks due to the volatility of the purchase prices of this critical raw material.

At any given time, KES may be unable to obtain an adequate supply of scrap at a price and other terms acceptable to us. Additionally, any change in KES' relationship with its scrap brokers could make it more difficult or costly for it to obtain scrap, which could have an adverse impact on our financial condition and results of operations.

If KES' suppliers increase the price of its critical raw materials, it may not be able to locate alternative sources of supply. If KES is unable to obtain adequate and timely deliveries of its required raw materials, KES may be unable to timely and cost effectively manufacture sufficient quantities of its products. This could cause KES to lose sales, incur additional costs and suffer harm to its reputation, financial condition and results of operations, which in turn would also have an adverse effect on the amount of tax sharing payments KES makes to us. These tax sharing payments are ALJ's sole source of cash to pay its operating expenses.

If demand and prices for steel deteriorate, our sales may decline and we may be required to recognize losses on the carrying value of our inventory. We were not required to make any lower of cost or market adjustments to the carrying value of our inventory for the twelve months ended September 30, 2011.

The availability and cost of electricity and natural gas are subject to volatile market conditions that could adversely affect our business.

Our Mill is a large consumer of electricity and natural gas. We rely upon third parties for the supply of energy resources consumed in the manufacture of KES' products. The prices for and availability of electricity, natural gas, oil and other energy resources are subject to volatile

market conditions. These market conditions often are affected by weather, political and economic factors, all of which are beyond our control. Disruptions in the supply of the energy resources could temporarily impair KES' ability to manufacture its products. Additionally, increases in energy costs could materially adversely affect KES' business, results of operations, financial condition and cash flows, which in turn would also have an adverse effect on the amount of tax sharing payments KES makes to us. These tax sharing payments are ALJ's sole source of cash to pay its operating expenses.

Mill management may be difficult to replace if they leave.

Management of the Mill is currently conducted by employees of Pinnacle pursuant to the Management Agreement which expires on September 30, 2015, subject to earlier termination or extension based on the performance of the Mill. Our operations and prospects depend in large part on the performance of our Mill management team. The loss of the services of one or more members of our Mill management team or the inability to attract, retain and maintain qualified additional Mill management personnel could harm our business, financial condition, results of operations and future prospects.

Our production and earnings could be reduced by strikes or work stoppages by our employees.

As of September 30, 2011, the Mill employed 138 individuals. If our employees were to strike or we faced similar work stoppages we would experience a disruption of production at our facility, which would cause an adverse impact on our operating costs and results of operations.

Our level of indebtedness and other demands on our cash resources could materially adversely affect our ability to execute our business strategy.

Our total debt obligations (including preferred stock considered as debt obligations in our consolidated financial statements) are approximately $55 million on a consolidated basis as of September 30, 2011. Subject to the limits contained in our Credit Facility and Subordinated Financing Agreement (both as defined below), we may also incur additional debt in the future. In addition to interest and principal payments on our outstanding debt and dividends and repurchase obligations with respect to our preferred stock, we, and in particular KES, have other demands on our cash resources, including, among others, capital expenditures that may arise from time to time and operating expenses.

Our significant indebtedness levels and other demands on our cash resources could have a material effect on our operations and our ability to execute our business strategy. Specifically, our debt has the following impacts on our operations, among others:

Except for periodic tax sharing payments, all of KES' cash flows must be used to fund its operations and service its debt obligations, including interest, dividends, required principal payments, and required preferred stock repurchase obligations, and therefore is not available for use in KES' business, including working capital needs;

Our ability to obtain additional debt financing for working capital, capital expenditures, general corporate purposes or other purposes could be impaired by the terms and amount of KES' existing debt and if additional funding is required we may be required to seek additional equity financings, which may have a dilutive impact on our existing stockholders or may not be unavailable on acceptable terms or at all;

Our failure to comply with restrictions and covenants contained in the terms of our debt agreements, in particular the Credit Facility and Subordinated Financing Agreement, could lead to a default which could cause all or a significant portion of our debt to become immediately payable; if such default is not cured or waived, our lenders could foreclose on our assets, which could result in a complete loss of our stockholders' investments;

Restrictions in our debt agreements could limit our flexibility in planning for, or reacting to, changes in the industries in which we compete;

Our level of indebtedness could place us at a competitive disadvantage compared to our competitors, some of which have less debt service obligations and greater financial resources than we do; and

Our level of indebtedness could increase our vulnerability to general adverse economic and industry conditions.

To service our indebtedness, we will require a significant amount of cash, and our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on our indebtedness and to fund any future capital expenditures required by KES will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

We cannot assure you that KES' business will generate sufficient cash flow from operations, or that future borrowings will be available to us under the Credit Facility in an amount sufficient to enable us to pay our indebtedness, or to fund our other liquidity needs. We may need to

refinance all or a portion of our indebtedness, on or before maturity. We cannot assure you that we will be able to refinance any of our indebtedness, including the Credit Facility, on commercially reasonable terms or at all, particularly given the current state of credit markets.

We have variable rate indebtedness that subjects us to interest rate risk, which could cause our annual debt service obligations to increase significantly.

A portion of our current borrowings, namely the Credit Facility ($16.7 million revolver and $6.0 million term loan at September 30, 2011), and potential future borrowings, are and may continue to be at variable rates of interest, thus exposing us to interest rate risk. If interest rates increase, our debt service obligations on our variable rate indebtedness would increase even if the amount borrowed remained the same, resulting in a decrease in our net income. For example, if interest rates increased in the future by 100 basis points, based on our current borrowings as of September 30, 2011, we would recognize approximately an additional $56,750 per quarter in interest expense.

Our net operating loss carryforwards could be substantially limited if we experience an "ownership change" as defined in Section 382 of the Internal Revenue Code.

Our ability to utilize NOLs and tax credit carry-forwards to offset our future taxable income and/or to recover previously paid taxes would be limited if we were to undergo an "ownership change" within the meaning of Section 382 of the Code.

Section 382 of the Code contains rules that limit the ability of a company that undergoes an "ownership change," which is generally any change in ownership of more than 50% of its stock over a three-year period, to utilize its NOLs and certain built-in losses recognized in years after the ownership change. These rules generally operate by focusing on ownership changes among stockholders owning directly or indirectly 5% or more of the stock of a company and any change in ownership arising from a new issuance of stock by the company.

If we undergo an ownership change for purposes of Section 382 as a result of future transactions involving our common stock, including purchases or sales of stock between 5% shareholders, our ability to use our NOLs and to recognize certain built-in losses would be subject to the limitations of Section 382. Depending on the resulting limitation, a significant portion of our NOLs could expire before we would be able to use them. We had approximately $259 million of (pre-tax) NOLs as of September 30, 2011. The NOLs do not begin to expire until 2020 and are available to be used at some level through 2025. Our inability to utilize our NOLs could have a negative impact on our financial position and results of operations.

We do not believe we have experienced an "ownership change" as defined by Section 382 in the last three years. However, whether a change in ownership occurs in the future is largely outside of our control, and there can be no assurance that such a change will not occur.

In May 2009, we announced that our Board adopted a shareholder rights plan designed to preserve stockholder value and the value of certain tax assets primarily associated with NOLs and built in losses under Section 382 of the Code.

We also amended our certificate of incorporation to add certain restrictions on transfers of our stock that may result in an ownership change under Section 382.

Our ability and the ability of KES to engage in some business transactions may be limited by the terms of our debt.

The Subordinated Loans and Credit Facility contain a number of financial covenants requiring them to meet financial ratios and financial condition tests, as well as covenants restricting their ability to:

- incur additional debt;
- make certain capital expenditures;
- incur or permit liens to exist;
- enter into transactions with affiliates;
- guarantee the debt of other entities, including joint ventures;
- merge or consolidate or otherwise combine with another company; and
- transfer or sell our assets.

KES' ability to borrow under the Credit Facility will depend upon its ability to comply with certain covenants and borrowing base requirements. Its ability to meet these covenants and requirements may be affected by events beyond its control and it may not meet these obligations. The failure of KES to comply with these covenants and requirements could result in an event of default under the Credit Facility or Subordinated Financing Agreement that, if not cured or waived, could terminate its ability to borrow further, permit acceleration of the relevant debt (and other indebtedness based on cross default provisions) and permit foreclosure on any collateral granted as security under the Credit Facility or Subordinated Financing Agreement. There can also be no assurance that the lenders will grant waivers on covenant violations, if they occur. Any such event of default would have a material adverse effect on us as KES is our principal asset and cash we receive through our tax sharing payments from KES is our sole source of cash to pay our operating expenses.

We rely upon a small number of major customers for a substantial percentage of our sales.

A loss of any large customer or group of customers could materially reduce our sales and earnings. We have substantial business relationships with a few large customers. In the fiscal year ended September 30, 2011, our top ten customers accounted for approximately 45% of our consolidated net sales. During this period, our largest customer accounted for approximately 12% of our consolidated net sales. We expect to continue to depend upon a small number of customers for a significant percentage of our net sales, and cannot assure you that any of them will continue to purchase steel from us.

Our internal controls and procedures may be deficient.

Our internal controls and procedures may be subject to deficiencies or weaknesses. Remedying and monitoring internal controls and procedures distracts our management from its operations, planning, oversight and performance functions, which could harm our operating results. Additionally, any failure of our internal controls or procedures could harm our operating results or cause us to fail to meet our obligation to maintain adequate public information.

We may have unknown liabilities stemming from YouthStream Media Networks, Inc.'s historical operations.

There may have been liabilities that stem from YouthStream Media Networks, Inc.'s historical operations of which we are not aware. In the event any such liability becomes known, it may lead to claims against us, but not limited to, lawsuits, administrative proceedings, and other claims. Any such liabilities may subject us to increased expenses for attorneys' fees, fines and litigation and expenses associated with any subsequent settlements or judgments. There can be no assurance that such unknown liabilities do not exist. To the extent that such liabilities become known, any such liability-related expenses may materially and adversely affect our profitability, operating results and financial condition.

We may encounter difficulties in acquiring other companies.

We acquired the Mill effective March 1, 2005 and may in the future acquire other companies. If we identify suitable candidates, we may not be able to make investments or acquisitions on commercially acceptable terms. Acquisitions may cause a disruption in our ongoing business, distract management, require other resources and make it difficult to maintain our standards, controls and procedures. We may not be able to retain key employees of the acquired companies or maintain good relations with their clients or suppliers. We may be required to incur additional debt and to issue equity securities to effect and/or fund acquisitions, which may be dilutive to existing stockholders.

We cannot assure you that any acquisitions we make will enhance our business.

We cannot assure you that any completed acquisition will enhance our business. Since we anticipate that acquisitions could be made with both cash and our common stock, the potential impacts that may arise if we consummate one or more significant acquisitions may include:

a substantial portion of our available cash could be used to consummate the acquisitions and/or we could incur or assume significant amounts of indebtedness; and

our stockholders could suffer significant dilution of their interest in our common stock.

Also, we are required to account for acquisitions under the purchase method, which would likely result in our recording significant amounts of goodwill or other tangible and intangible assets. The inability of a subsidiary to sustain profitability may result in an impairment loss in the value of long-lived assets, principally goodwill and other tangible and intangible assets, which would adversely affect our financial statements.

Decreases in the demand for steel could have a material adverse impact on our business.

The U.S. steel industry has recently experienced a significant economic downturn. This decline has led to deterioration in backlog and, therefore, excess capacity in producing mills worldwide, which has already resulted in a corresponding decrease in our sales and may adversely impact our sales, financial condition and results of operations going forward. Further, while we operate in the U.S., the global steel industry has suffered significant deterioration in demand, which has had an adverse affect on steel prices in the U.S.

We may face significant price and other forms of competition from other steel producers, which could have a material adverse effect on our business, financial condition, results of operation or prospects.

The global markets in which steel companies conduct business are highly competitive. Increased competition could cause us to lose market share or reduce pricing, either one of which could have a material adverse effect on our business, financial condition, results of operations or prospects. We compete primarily on the basis of price, quality and the ability to meet our customers' product needs and delivery schedules. Some of our competitors may have advantages due to greater capital resources, different technologies, lower raw material costs, lower energy costs or favorable exchange rates.

Risks Related to our Common Stock

Our common stock is illiquid and stockholders may be unable to sell their shares.

Our common stock is currently quoted on the "Pink Sheets" under the symbol "ALJJ.PK." There is currently only a limited market for our common stock and we can provide no assurance to investors that a more robust market will develop. If a broader market for our common stock does not develop, our stockholders may encounter difficulties selling their common stock from time to time. We do not have the ability to uplist our stock on NASDAQ or the AMEX exchanges because we do not meet the qualifications for listing on those exchanges.

Our stock is a penny stock and, as a result, our stockholders are more limited in their ability to sell their stock.

The Securities and Exchange Commission has adopted rules that regulate broker-dealer practices in connection with the sale of penny stocks, or low-priced securities other than securities registered on certain exchanges, to persons other than established customers and institutional accredited investors. Because our securities constitute penny stocks within the meaning of the rules, the rules apply to us and our securities. For transactions covered by these rules, prior to effecting a transaction in a penny stock, a broker-dealer must, among other things: (a) make a special suitability determination for the purchaser; (b) deliver a standardized risk disclosure document to the customer; (c) receive written acknowledgement of the receipt of the disclosure statement; (d) provide to customers current bids and offers, including the number of shares to which such bid and offer prices apply; (e) disclose to customers the broker-dealer and sales representation compensation; and (f) receive the purchaser's written consent to the transaction prior to the sale. These suitability requirements and disclosure requirements may have the effect of reducing the trading activity in the secondary market for our stock.

Volatility in the market price of our common stock.

The market price of our common stock could fluctuate substantially in the future in response to a number of factors, including the following:

- our quarterly operating results or the operating results of other companies in the steel industry;
- changes in general conditions in the economy, the financial markets or the steel industry;
- announcements by us or our competitors of significant acquisitions; and
- increases in raw materials and other costs.

In addition, in recent years the stock market has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated to their operating performance. These broad market fluctuations may materially adversely affect our stock price, regardless of our operating results.

We do not currently plan to pay dividends to holders of our common stock.

We do not currently anticipate paying cash dividends to the holders of our common stock. Accordingly, holders of our common stock must rely upon price appreciation as the sole method to realize a gain on their investment. There can be no assurances that the price of our common stock will ever appreciate in value.

The anti-takeover provisions of our stockholders rights plan may have the effect of delaying or preventing beneficial takeover bids by third parties.

We have a Rights Plan designed to preserve the value of certain tax assets primarily associated with our NOLs and built in losses under Section 382. At September 30, 2011, the Company had approximately $259 million in net operating losses and the use of such losses to offset federal income tax would be limited, if the Company experiences an "ownership change" under Section 382. This would occur if stockholders owning (or deemed under Section 382 to own) 5% or more of the Company's stock by value increase their collective ownership of the aggregate amount of the Company's stock by more than 50 percentage points over a defined period of time. The Rights Plan was adopted to reduce the likelihood of an "ownership change" occurring as defined by Section 382.

In connection with the Rights Plan, the Company declared a dividend of one preferred share purchase right for each share of its common stock outstanding as of the close of business on May 21, 2009. Pursuant to the Rights Plan, any stockholder or group that acquires beneficial ownership of 4.9 percent or more of the Company's outstanding stock (an "Acquiring Person") without the approval of the Company's Board would be subjected to significant dilution of its holdings. Any existing stockholder holding 4.9% or more of the Company's stock will not be considered an Acquiring Person unless such stockholder acquires additional stock of the Company; provided, however, that existing stockholders actually known to the Company to hold 4.9% or more of its stock as of April 30, 2009 will be permitted to purchase up to an additional 5% of the Company's stock without triggering the Rights Plan. In addition, in its discretion, the Board may exempt certain persons whose acquisition of securities is determined by the Board not to jeopardize the Company's deferred tax assets and may also exempt certain transactions. The Rights Plan will continue in effect until May 13, 2019, unless it is terminated or redeemed earlier by the Board.

While the Rights Plan is intended to protect our NOLs and built-in losses under Section 382, it may also have the effect of delaying or preventing beneficial takeover bids by third parties.

PART D

MANAGEMENT STRUCTURE AND FINANCIAL INFORMATION

Directors and Officers Biographies and Board Structure.

The following table sets forth certain information regarding the Company's directors and executive officers.

Name	Age	Position
John Scheel	56	Chief Executive Officer, President and Class I Director
T. Robert Christ	42	Chief Financial Officer
Hal G. Byer	54	Class II Director
Robert Scott Fritz	54	Class I Director
Olimpio Lee Squitieri	53	Class II Director
Jess M. Ravich	54	Class III Director

The Company's Board of Directors is divided into three classes, with one class being elected each year and members of each class holding office for a three-year term. All of the directors serve until their terms expire and until their successors are elected and qualified, or until their earlier death, retirement, resignation or removal.

In July 2011, the Company re-elected each of Hal G. Byer and Olimpio Lee Squitieri as a Class II Director with a term expiring 2014. The Class I and Class III directors terms expire in 2013 and 2012, respectively.

The Board of Directors does not have separate audit, compensation or nominating committees.

The following is a brief summary of the backgrounds of the Company's directors and executive officers.

John Scheel. Mr. Scheel has served as the President and Chief Executive Officer of the Company since August 31, 2006 and has served as a director of the Company since September 13, 2006. Mr. Scheel also currently serves as the Chief Operating Officer of Pinnacle Steel, LLC, and pursuant to the Management Agreement between KES and Pinnacle, as plant manager of the Mill. Mr. Scheel has been plant manager of the Mill since January of 2004 and has been Chief Operating Officer of Pinnacle since September 2002. Prior to joining Pinnacle, Mr. Scheel held various positions of increased responsibility at AK Steel, Nucor Corporation and Birmingham Steel Management. Mr. Scheel holds both B.S. and M.S. degrees in Metallurgical Engineering from Purdue University and a Master of Business Administration in Finance and International Business from Xavier University.

T. Robert Christ. Mr. Christ has served as the Chief Financial Officer and Secretary of the Company since July 2008. Mr. Christ was previously Chief Financial Officer for Electronic Recyclers International, Inc., a nationwide recycler of e-waste. From 1999 to 2006, Mr. Christ served as Chief Operating Officer and Chief Financial Officer for Aristotle International Inc., a political software company and age and identity verification company. From 1997 to 1999, Mr. Christ served as Chief Financial Officer for Pulsar Data Systems, a government contractor that merged with Litronic Inc. and went public in 1999. From 1994 to 1997, Mr. Christ served as controller for the Centech Group Inc., a government contractor, and from 1991 to 1993, Mr. Christ held various positions with Rubino and McGeehin, Chtd. a public accounting firm. Mr. Christ holds a B.B.A. degree in Accounting from James Madison University and passed the C.P.A. exam in 1991.

Hal G. Byer. Mr. Byer has served as a director of the Company since January 30, 2003. Mr. Byer joined Houlihan Lokey, as a Vice President in their Financial Sponsors Coverage Group in December 2009. From May 2001 to November 2009, Mr. Byer was a Senior Vice President of Libra Securities, LLC ("Libra Securities"), a broker-dealer registered with the Securities and Exchange Commission and an NASD member. From 1995 to 2003, Mr. Byer was Chief Executive Officer of Byer Distributing Co., a snack food distribution company. From 2000 to 2003, Mr. Byer was also the Chief Operating Officer of eGreatcause.com, an internet start-up involved in fundraising for charitable and non-profit organizations that is no longer active.

Robert Scott Fritz. Mr. Fritz has served as a director of the Company since January 30, 2003. Since May 2002, Mr. Fritz has served as the president of Robert Fritz and Sons Sales Company, a food broker and paper distributor that he owns in New Jersey. Mr. Fritz holds a B.S. in Business from Fairleigh Dickinson University.

Olimpio Lee Squitieri. Mr. Squitieri has served as a director of the Company since June 2008. Since January 2001, Mr. Squitieri has served as a partner at Squitieri & Fearon, LLP. From 1988 through January 2001, Mr. Squitieri was a partner at the firm formerly known as Abbey, Gardy & Squitieri, LLP. Since December 2006, Mr. Squitieri has served as a director and vice president of Sixty Sutton Corp. Mr. Squitieri

also serves as a director of SCAN New York, a non-profit organization. Mr. Squitieri has a B.A. from Rutgers University and a J.D. from New York Law School.

Jess M. Ravich. Mr. Ravich has served as a director of the Company since June 26, 2006 and the Chairman of the Board since August 31, 2006. Mr. Ravich joined Houlihan Lokey as Managing Director in December 2009. Prior to that, Mr. Ravich was Chairman and Chief Executive Officer of Libra Securities, a Los Angeles-based investment banking firm that focuses on capital raising and financial advisory services for middle market corporate clients and the sales and trading of debt and equity securities for institutional investors. Prior to founding Libra Securities in 1991, Mr. Ravich was an Executive Vice President at Jefferies & Co., Inc. and a Senior Vice President at Drexel Burnham Lambert. Mr. Ravich serves on the Board of Directors, audit committee and compensation committee of Cherokee Inc. (Nasdaq GS: CHKE). In addition to his professional responsibilities, Mr. Ravich is also on the Undergraduate Executive Board of the Wharton School and the Board of Trustees of the Archer School for Girls. Mr. Ravich has both a B.S and M.S. from the Wharton School and a J.D. from Harvard University.

During the last five years, none of the Company's directors or executive officers has been the subject of:

1. A conviction in a criminal proceeding or named as a defendant in a pending criminal proceeding (excluding traffic violations and other minor offenses);

2. The entry of an order, judgment, or decree, not subsequently reversed, suspended or vacated, by a court of competent jurisdiction that permanently or temporarily enjoined, barred, suspended or otherwise limited such person's involvement in any type of business, securities, commodities, or banking activities;

3. A finding or judgment by a court of competent jurisdiction (in a civil action), the Securities and Exchange Commission, the Commodity Futures Trading Commission, or a state securities regulator of a violation of federal or state securities or commodities law, which finding or judgment has not been reversed, suspended, or vacated; or

4. The entry of an order by a self-regulatory organization that permanently or temporarily barred, suspended or otherwise limited such person's involvement in any type of business or securities activities.

Officer's Compensation

The following table sets forth the total compensation paid or accrued by the Company to the named executive officers for services rendered during the last three fiscal years ended September 30, 2011. No other executive officers received total annual compensation exceeding $100,000 during such fiscal years.

		Annual Compensation		Long-Term Compensation	
	Year	Salary	Bonus	Securities Underlying Stock Awards	All Other Compensation
John Scheel (1)	2011	$ $60,000	0	21,186	$ 12,500
Chief Executive Officer, Director	2010	$ $60,000	0	32,894	$ 12,500
	2009	$ $60,000	0	69,444	$ 12.500
T. Robert Christ (2)	2011	$ $ 60,000	0	0	0
Chief Financial Officer and Secretary	2010	$ $ 60,000	0	0	0
	2009	$ $ 60,000	0	0	0

(1) Mr. Scheel has served as President and Chief Executive Officer since August 31, 2006. Mr. Scheel received $12,500 as director compensation for 2011, 2010, and 2009. Mr. Scheel's annual salary is $60,000. Mr. Scheel also receives compensation from Pinnacle, which manages the Mill and of which he is a principal. For the fiscal years ended September 30, 2011, 2010 and 2009, Pinnacle's management fees were $2,823,355, $1,498,061 and $1,083,582, respectively.

(2) Mr. Christ served as Chief Financial Officer and Secretary since June 20, 2008. Mr. Christ's annual salary is $60,000.

Director Compensation

Pursuant to the director compensation program adopted in June 2008, each member of the Board receives annual compensation of $25,000, 50% of which is paid in cash and 50% of which is paid in shares of restricted stock valued at the fair market value on the date of grant. Directors may also be reimbursed for any out-of-pocket expenses they incur in the performance of their responsibilities for us.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of November 30, 2011, the beneficial ownership of common stock with respect to (i) each person who was known by the Company to own beneficially more than 5% of the outstanding shares of common stock, (ii) each director, (iii) each of the Company's current executive officers, and (iv) all directors and executive officers as a group. As of November 30, 2011, the Company had 57,039,970 shares of common stock issued and outstanding, which was the only class of voting securities authorized or outstanding.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class
Executive Officers and Directors:		
Robert Scott Fritz, Director 711 Sycamore Avenue Red Bank, NJ 07701	741,653(2)	1.30%
Hal G. Byer, Director c/o Houlihan Lokey 1930 Century Park West Los Angeles, CA 90067	537,524(3)	0.94%
Olimpio Lee Squitieri, Director 32 East 57th Street, 12th Floor New York, NY 10022	1,593,152(4)	2.80%
Jess M. Ravich, Chairman of the Board 149 S. Barrington Avenue, #828 Los Angeles, CA 90049	13,142,211(5)	23.08%
John Scheel, Director and Chief Executive Officer c/o KES Acquisition Company 2704 South Big Run Road Ashland, Kentucky 41102	726,102(6)	1.28%
T. Robert Christ, Chief Financial Officer P.O. Box 99418 San Diego, CA 92169	200,000(7)	0.35%
5% Stockholders:		
Joseph Corso Jr. 167 Zock Road Cuddlebackville, NY 12729	10,373,000(8)	18.22%

(1) Consistent with regulations of the U.S. Securities and Exchange Commission, shares of common stock issuable upon exercise of derivative securities by their terms exercisable within 60 days of November 30, 2011 are deemed outstanding for purposes of computing the percentage ownership of the person holding such securities but are not deemed outstanding for computing the percentage ownership of any other person. Unless otherwise indicated below, to the knowledge of the Company, the persons and entities named in this table have sole voting and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable.

(2) Includes 732,825 shares held of record and 8,828 restricted shares vesting within 60 days of November 30, 2011.

(3) Includes 528,696 shares held of record and 8,828 restricted shares vesting within 60 days of November 30, 2011.

(4) Includes 1,584,324 shares held of record and 8,828 restricted shares vesting within 60 days of November 30, 2011.

(5) Includes 11,133,383 shares held by the Ravich Revocable Trust of 1989 (the "Ravich Trust"), 2,000,000 shares issuable upon exercise of currently vested options or warrants, 8,828 restricted shares vesting within 60 days of November 30, 2011.

(6) Includes 517,274 shares held of record, 200,000 shares issuable upon exercise of currently vested options, and 8,828 restricted shares vesting within 60 days of November 30, 2011.

(7) Includes 200,000 shares issuable upon exercise of currently vested options.

(8) Based on information provided to the Company by Mr. Corso.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Mr. Ravich, who is the Chairman of the Board of ALJ and a director of KES holds: (1) Subordinated Loans (defined below) under the Subordinated Financing Agreement, (2) Series B Common Stock of KES, (3) either directly or through his family trusts, 11,133,383 shares of ALJ's common stock, (4) 8,828 restricted shares of ALJ Common Stock vesting within 60 days of November 30, 2011, (5) 2,000,000 shares of ALJ Common Stock issuable upon exercise of currently vested options as of September 30, 2011 and (6) 1,187 shares of KES 13% Series A Preferred Stock. Additionally, Libra Securities Holdings, LLC ("Libra Securities Holdings"), an affiliate of Mr. Ravich, holds 712 shares of KES 13% Series A Preferred Stock. As part of the September 2011 Refinancing and Repurchase (discussed in detail below), the Company entered into a Fee and Reimbursement Agreement dated September 30, 2011 with the Guarantors, Jess Ravich and two related trusts (the "2011 Fee and Reimbursement Agreement") in connection with their agreement to provide certain guaranties on behalf of the Company. Pursuant to the 2011 Fee and Reimbursement Agreement, the Company paid the Guarantors a one-time fee of $200,000 at the closing on September 30, 2011. In connection with the refinance of KES' credit facility in May 2010, the Company entered into a Fee and Reimbursement Agreement dated May 28, 2010 with the Guarantors (the "2010 Fee and Reimbursement Agreement") again in connection with their agreement to provide certain guaranties on behalf of the Company. Pursuant to the 2010 Fee and Reimbursement Agreement, the Company paid the Guarantors a one-time fee of $100,000 at the closing on May 28, 2010 and an additional $50,000 on the first anniversary date of the closing. Also on May 28, 2010, as part of a broader repurchase program, KES repurchased 1,313 and 788 shares of its 13% Series A Preferred Stock plus accrued dividends thereon from one of Mr. Ravich's family trusts and Libra Securities Holdings, respectively, for aggregate consideration of $2.1 million. All shares were repurchased at the same price as paid under the repurchase program.

Robert Scott Fritz and Hal G. Byer, both directors of ALJ, are holders of shares of Series B common stock of KES. On February 15, 2011, Messrs. Fritz and Byer and Jon Diamond, a former director of ALJ, sold 25,390, 33,854 and 10,156 shares, respectively, of ALJ's Series A Preferred Stock plus accrued dividends thereon to ALJ for aggregate consideration of $277,600. The ALJ Series A Preferred Stock repurchased had a face value of $277,600 plus accrued dividends of $147,941 at that time.

In June 2011, Mr. Ravich, the Chairman of the Board of ALJ, exchanged 305,156 shares of ALJ's 4% Series A Preferred Stock plus accrued dividends thereon for 3,774,632 shares of ALJ Common Stock. The aggregate liquidation value of the 4% Series A Preferred Stock outstanding at June 16, 2011 was approximately $1,887,316. The exchange took place at an implied price of $0.50 per share. The terms of the Stock Exchange were approved by the independent members of the Board of Directors of ALJ. The Stock Exchange was completed under a Series A Preferred Stock Exchange Agreement dated June 16, 2011 between ALJ and Mr. Ravich.

On September 30, 2011, KES repurchased $9.1 million of aggregate principal of the Subordinated Loans plus $2.9 million in accrued interest thereon from the holders thereof, which include certain related parties. The Subordinated Loans repurchased included principal of $49,084 repurchased from Robert Scott Fritz leaving a balance of $88,735, principal of $87,587 repurchased from Hal G. Byer leaving a balance of $158,340, principal of $3.2 million repurchased from two family trusts related to Jess Ravich leaving a balance of $5.9 million, principal of $2.1 million repurchased from Libra Securities leaving a balance of $3.7 million and principal of $140,836 repurchased from ALJ leaving a balance of $254,604. (See "**Liquidity and Capital Resources**" below).

The terms of all of the foregoing transactions were approved by the independent members of the Board.

FINANCIAL INFORMATION

The following financial statements of the Company are included at the end of this Report:

Consolidated Balance Sheets —

Years Ended September 30, 2011, 2010 and 2009

Consolidated Statements of Operations —

Years Ended September 30, 2011, 2010 and 2009

Consolidated Statement of Stockholders' Deficiency —

Years Ended September 30, 2011, 2010 and 2009

Consolidated Statements of Cash Flows —

Years Ended September 30, 2011, 2010 and 2009

Notes to Consolidated Financial Statements

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Critical Accounting Policies and Estimates

The Company prepared its financial statements in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Management periodically evaluates the estimates and judgments made. Management bases its estimates and judgments on historical experience and on various factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates as a result of different assumptions or conditions.

The following critical accounting policies affect the more significant judgments and estimates used in the preparation of the Company's financial statements.

Cash and Cash Equivalents

Cash and equivalents include all cash, demand deposits and money market accounts with original maturities of three months or less.

Accounts Receivable

The Company grants credit to its customers generally in the form of short-term trade accounts receivable. Management evaluates the credit risk of its customers utilizing historical data and estimates of future performance.

Accounts receivable are stated at the amount management expects to collect from outstanding balances. When appropriate, management provides for probable uncollectible amounts through a provision for doubtful accounts and an adjustment to a valuation allowance. Management reviews and adjusts this allowance periodically based on the aging of accounts receivable balances, historical write-off experience, customer concentrations, customer creditworthiness, and current industry and economic trends. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Inventory

Inventories are comprised of raw materials (consisting of alloys and scrap metal), semi-finished goods (billets) and finished goods. Inventory costs include material, labor and manufacturing overhead. Inventories are valued at the lower of average cost or market. The average cost of the

billets and scrap metal is adjusted monthly to reflect current changes in cost inputs. The market value of billet and scrap metal inventories was determined using replacement costs.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Expenditures for routine maintenance and repairs are charged to expense as incurred. Expenditures for equipment renewals and improvements, which extend the useful life of an asset, are capitalized. Certain equipment held under capital lease is classified as property, plant and equipment, and the related obligation is recorded as a liability. Lease amortization is included in depreciation expense.

Depreciation is provided on the straight-line method over the estimated useful lives of the assets, generally 3 to 20 years for machinery and equipment, and 20 to 40 years for buildings and improvements. Equipment under capital lease is amortized using the straight-line method over the primary lease term.

Impairment of Long-Lived Assets

Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An asset is considered impaired if its carrying amount exceeds the future net cash flow the asset is expected to generate. If an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair market value. The recoverability of long-lived assets is assessed by determining whether the unamortized balances can be recovered through undiscounted future net cash flows of the related assets. The amount of impairment, if any, is measured based on projected discounted future net cash flows using a discount rate reflecting the Company's average cost of capital.

Loan Costs

Direct costs and fees associated with the establishment of debt financing are capitalized and amortized on a straight-line basis over the term of the underlying debt.

Revenue Recognition

The Company recognizes revenue when there is persuasive evidence that an arrangement exists, delivery of the product has occurred and title has passed, the selling price is both fixed and determinable, and collectability is reasonably assured, all of which generally occur either upon shipment of the Company's product or delivery of the product to the destination specified by the customer.

Shipping and Handling Fees and Costs

The Company reports shipping and handling fees charged to customers as part of net sales and the associated expense as part of cost of sales.

Operating Leases

Leases where substantially all the risks and rewards of ownership of the assets remain with the leasing company are accounted for as operating leases. Rent payable under operating leases is recorded as an operating cost in the statement of operations on a straight-line basis over the lease terms.

Stock-Based Compensation

The Company recognizes compensation expense for its equity awards on a straight-line basis over the requisite service period of the award based on the estimated portion of the award that is expected to vest and applies estimated forfeiture rates based on analyses of historical data, including termination patterns and other factors. The Company uses the quoted closing market price of its common stock on the grant date to measure the fair value of restricted stock awards and the Black-Scholes option pricing model to measure the fair value of stock option awards. The expected volatility is based on historical volatilities of the Company's common stock over the most recent period commensurate with the estimated expected term of the awards. The expected term of an award is equal to the midpoint between the vesting date and the end of the contractual term of the award. The risk-free interest rate is based on the rate on U.S. Treasury securities with maturities consistent with the estimated expected term of the awards. The Company has not paid dividends and does not anticipate paying a cash dividend in the foreseeable future and, accordingly, use an expected dividend yield of zero.

Income Taxes

The Company uses the asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax-credit carry-forwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amount of assets and liabilities and their tax bases.

The Company's judgments relative to the current provision for income taxes take into account current tax laws, the Company's interpretation of current tax laws and possible outcomes of current and future audits conducted by tax authorities. The Company files income tax returns in the U.S. federal jurisdictions and various state jurisdictions and is subject to U.S. federal tax and state tax examinations for years ranging from 2003 to 2010. The Company's judgments relative to the value of deferred tax assets and liabilities take into account estimates of the amount of future taxable income. Actual operating results and the underlying amount of income in future years could render the Company's current estimates of recoverable net deferred taxes inaccurate. Any of the judgments mentioned above could cause the Company's actual income tax obligations to differ from its estimates, thus materially impacting the Company's financial position and results of operations.

If the Company takes a recognized tax position or has taken a recognized tax position on a tax return that more likely than not would be sustained upon examination by tax authorities, then the Company will recognize the potential asset or liability in the financial statements. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Management believes that the Company has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accrual for tax liabilities are adequate for all open years on assessment of many factors including past experience and interpretation of tax law applied to the facts of each matter.

Asset Retirement Obligations

The Company accounts for its asset retirement obligations in accordance with applicable standards which require that the discounted fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred, if a reasonable estimate of the fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset.

All material environmental remediation liabilities for non-capital expenditures, which are probable and estimable, are recorded in the financial statements based on current technologies and current environmental standards at the time of evaluation. Adjustments are made when additional information is available that suggests different remediation methods or periods may be required which affect the total cost.

Fair Value of Financial Instruments

In September 2006, the Financial Accounting Standards Board ("FASB") issued regulations in order to establish a single definition of fair value and a framework for measuring fair value under generally accepted accounting principles (GAAP) that is intended to result in increased consistency and comparability in fair value measurements with expanded disclosures about fair value measurements. These regulations apply whenever other authoritative literature requires (or permits) certain assets or liabilities to be measured at fair value, but does not expand the use of fair value. The Company adopted these regulations pertaining to non-financial assets and non-financial liabilities at the beginning of its 2009 fiscal year. This initial adoption did not have an impact on the Company's financial statements or footnote disclosures.

Comprehensive Income (Loss)

Comprehensive income (loss) includes all changes in equity except those resulting from investments by owners and distributions to owners, including adjustments to minimum pension liabilities, accumulated foreign currency translation, and unrealized gains or losses on marketable securities. The Company did not have any items of comprehensive income (loss) for the years ended September 30, 2011, 2010 and 2009.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Recent Accounting Pronouncements and Developments

In September 2011, the FASB issued additional guidance regarding the requirement to test goodwill for impairment on at least an annual basis. Existing guidance requires that the test be performed by quantitatively comparing the fair value of a reporting unit with its carrying amount, including goodwill (step one). If the fair value of a reporting unit is less than its carrying amount, then step two of the test must be performed to measure the amount of the impairment, if any. Under the new guidance, an entity has the option to first assess qualitative factors to determine whether the existence of events and circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an

entity concludes otherwise, then it is required to perform the first step of the two-step impairment test. The guidance is effective for fiscal years beginning after December 15, 2011 with early adoption permitted, and will be applied prospectively. The Company does not expect the adoption of this guidance will have a material impact on its financial statements.

In June 2011, the FASB issued new guidance regarding the presentation of comprehensive income. The new guidance requires the presentation of the total of comprehensive income, the components of net income and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The new guidance also requires presentation of adjustments for items that are reclassified from other comprehensive income to net income in both net income and other comprehensive income. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 with early adoption permitted, and will be applied retrospectively. The Company does not expect the adoption of this guidance will have a material impact on its financial statements.

In May 2011, the FASB issued additional guidance on fair value measurements. The updated guidance provides clarification on existing fair value measurement requirements, amends certain guidance primarily related to fair value measurements for financial instruments and requires enhanced disclosures about fair value measurements. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011 with early adoption permitted, and will be applied prospectively. The Company does not expect the adoption of this guidance will have a material impact on its financial statements.

Results of Operations for the Twelve Months Ended September 30, 2011, 2010 and 2009

	2011		2010		2009	
Net sales	$ 162,020,525	100%	$ 112,828,496	100%	$ 110,079,361	100%
Cost of sales	137,455,886	85%	96,952,237	86%	97,601,925	89%
Gross profit	24,564,639	15%	15,876,259	14%	12,477,436	11%
Selling expenses	2,071,418	2%	1,695,618	1%	1,684,370	1%
General and administrative expenses	7,281,690	4%	5,653,532	5%	5,245,875	5%
Total SG&A	9,353,108	6%	7,349,150	6%	6,930,245	6%
Income from Operations	15,211,531	9%	8,527,109	8%	5,547,191	5%
Interest income	53,656	0%	14,201	0%	17,124	0%
Interest expense	(4,263,855)	3%	(4,902,120)	4%	(5,443,927)	5%
Loss on investments	(151,541)	0%	-	0%	-	0%
Other income(expenses)	583,848	0%	3,968,553	3%	350,429	0%
Net income before taxes and minority interests	11,433,639	6%	7,607,743	7%	470,817	0%
Income taxes	1,694,830	2%	(636,181)	0%	(351,783)	0%
Net income before minority interests	13,128,469	8%	6,971,562	6%	119,034	0%
Minority interests	(1,711,338)	1%	(1,283,162)	1%	(65,873)	0%
Net income	$ 11,417,131	7%	$ 5,688,400	5%	$ 53,161	0%

Results of Operations for the Three Months Ended September 30, 2011 and 2010

	2011		2010	
Net sales	$ 45,890,365	100%	$ 32,374,532	100%
Cost of sales	38,448,141	84%	28,884,960	89%
Gross profit	7,442,224	16%	3,489,572	11%
Selling, general and administrative expenses	2,573,485	5%	1,773,226	5%
Income from Operations	4,868,739	11%	1,716,346	6%

For the twelve months ended September 30, 2011 and 2010

Net Sales

Net sales for the twelve months ended September 30, 2011 were $162.0 million, an increase of $49.2 million, or 44%, over net sales of $112.8 million for the twelve months ended September 30, 2010. The increase in net sales was primarily attributable to an increase in tons invoiced of 26,934 tons, or 21.3% and an increase in the average selling price of $165 per ton, or 18.5%.

Cost of Sales

Cost of Sales for the twelve months ended September 30, 2011 were $137.5 million, an increase of $40.5 million, or 42%, over cost of sales of $97.0 million for the twelve months ended September 30, 2010. The increase in cost of sales was primarily due to the increased costs of scrap and purchased billets.

Gross Profit

Gross profit for the twelve months ended September 30, 2011 was $24.6 million, an increase of $8.7 million, or 55%, over gross profit of $15.9 million for the twelve months ended September 30, 2010. Gross margin increased to 15% for the twelve months ended September 30, 2011 as compared to gross margin of 14% for the twelve months ended September 30, 2010, primarily due to an increase in sales of a higher margin product mix.

Selling Expenses

Selling expenses for the twelve months ended September 30, 2011 were $2.1 million, an increase of $375,000, or 22%, over selling expenses of $1.7 million for the twelve months ended September 30, 2010. The increase in selling expenses was primarily attributable to an increase in commissions.

General and Administrative Expenses

General and administrative expenses for the twelve months ended September 30, 2011 were $7.3 million, an increase of $1.6 million, or 29%, over general and administrative expenses of $5.7 million for the twelve months ended September 30, 2010. The increase in general and administrative expenses was primarily due to increases in management incentive fees of $1.3 million, legal fees of $240,285 and repairs and maintenance of $125,524.

Interest Expense

Interest expense for the twelve months ended September 30, 2011 was $4.3 million, a decrease of $638,265, or 13%, over interest expense of $4.9 million for the twelve months ended September 30, 2010. The decrease in interest expense was primarily attributed to lower average debt balances carried by the Company and a reduction of the Company's average principal balances on the Company's term notes during the year due to payments of principal. Additionally, the Company retired its 4% Note Payable and 4% Preferred Stock through an exchange of cash and common stock, which further reduced the amount of average outstanding debt during the year.

Other Income

Other income for the twelve months ended September 30, 2011 was $583,848, a decrease of $3.4 million, over other income of $4.0 million for the twelve months ended September 30, 2010. The decrease in other income was primarily attributed to $3.7 million of forgiveness of debt related to the partial repurchase of the 13% Preferred Stock, and $226,000 of forgiveness of debt related to the partial repurchase of the 4% Restated Promissory Note during the year ended September 30, 2010.

Loss on Investments

Loss on investments for the twelve months ended September 30, 2011 was $151,541, compared to $0 for the twelve months ended September 30, 2010. The Company wrote down its investment in Bellator Sport Worldwide, LLC. to $90,228, its current estimated fair value based on its most recent valuation.

Income Tax Expense

Income tax expense for the twelve months ended September 30, 2011 was ($1.7 million), a decrease of $2.3 million, over income tax expense of $636,000 for the twelve months ended September 30, 2010. The decrease was primarily attributable to the recording of a portion of the Company's net operating loss as a component of deferred tax assets. The Company has $259 million in net operating losses. The Company has demonstrated the ability to generate consistent taxable income, therefore the Company recognized $2.6 million in net deferred assets related to the Company's net operating loss.

Minority Interest

Minority interest for the twelve months ended September 30, 2011 was $1.7 million, an increase of $428,175, over minority interest of $1.3 million for the twelve months ended September 30, 2010. The increase was attributable to higher net income. As of September 30, 2011, the Company repurchased an additional 3.66% of the Company's subsidiary's common stock, reducing the percentage of minority interest from 19.79% to 16.13%.

Net Income

Net income for the twelve months ended September 30, 2011 was $11.4 million, an increase of $5.5 million, over net income of $5.9 million for the twelve months ended September 30, 2010. Earnings per share on a fully diluted basis was $.21 per share for the twelve months ending September 30, 2011, an increase of $.10 per share, over earnings per share on a fully diluted basis of $.11 per share for the twelve months ending September 30, 2010. This increase was primarily attributable to a higher revenue base with similar net income margins. Additionally, the Company recorded a net deferred tax asset of $2.7 million, or earnings per share of $.05 per share on a fully diluted basis, primarily attributable to recording a portion of the tax benefit associated with the Company's net operating loss.

For the twelve months ended September 30, 2010 and 2009

Net Sales

Net sales for the twelve months ended September 30, 2010 were $112.8 million, an increase of $2.7 million, or 2%, over net sales of $110.1 million for the twelve months ended September 30, 2009. The increase in net sales was primarily attributable to an increase in tons invoiced of 688 tons, or 0.5% and an increase in the average selling price of $17 per ton, or 2%.

Cost of Sales

Cost of Sales for the twelve months ended September 30, 2010 were $97.0 million, a decrease of $649,000, or 1%, over cost of sales of $97.6 million for the twelve months ended September 30, 2009. The decrease in cost of sales was primarily due to the cost savings related to the reduction of the Melt Shop operating rate which was initiated in November, 2009.

Gross Profit

Gross profit for the twelve months ended September 30, 2010 was $15.9 million, an increase of $3.4 million, or 27%, over gross profit of $12.5 million for the twelve months ended September 30, 2009. Gross margin increased for the twelve months ended September 30, 2010 to 14% as compared to the gross margin for the twelve months ended September 30, 2009 of 11%. The increase in gross profit and gross margin was primarily attributable to increased sales of a higher margin product mix.

Selling Expenses

Selling expenses for the twelve months ended September 30, 2010 were $1.7 million, which were consistent with selling expenses for the twelve months ended September 30, 2009 of $1.7 million.

General and Administrative Expenses

General and administrative expenses for the twelve months ended September 30, 2010 were $5.7 million, an increase of $407,000, or 8%, over general and administrative expenses of $5.2 million for the twelve months ended September 30, 2009. The increase in general and administrative expenses was primarily due to increases in management fees of $411,000 and other benefits of $125,000, partially offset by a reduction in legal fees of $285,000.

Interest Expense

Interest expense for the twelve months ended September 30, 2010 was $4.9 million, a decrease of $541,000, or 10%, over interest expense of $5.4 million for the twelve months ended September 30, 2009. The decrease in interest expense was primarily attributed to lower average debt balances carried by the Company and a reduction of the Company's overall principal balances on the Company's term notes due to payments of principal.

Other Income

Other income for the twelve months ended September 30, 2010 was $4.0 million, an increase of $3.6 million, over other income of $350,000 for the twelve months ended September 30, 2009. The increase in other income was primarily attributed to $3.7 million of forgiveness of debt related to the partial repurchase of the 13% Preferred Stock, and $226,000 of forgiveness of debt related to the partial repurchase of the 4% Restated Promissory Note.

Income Tax Expense

Income tax expense for the twelve months ended September 30, 2010 was $636,000, an increase of $285,000, or 81%, over income tax expense of $351,000 for the twelve months ended September 30, 2009. The increase was primarily attributable to higher taxable income in 2010.

Minority Interest

Minority interest for the twelve months ended September 30, 2010 was $1.3 million, an increase of $1.2 million, over minority interest of $66,000 for the twelve months ended September 30, 2009. The decrease was attributable to higher net income.

For the three months ended September 30, 2011 and 2010

For the three months ended September 30, 2011, net sales increased $13.5 million to $45.9 million, or 42%, as compared to the three months ended September 30, 2010, as a result of a 20% increase in the number of tons invoiced and an 18% increase in the price per ton. For the three months ended September 30, 2011, cost of sales increased $9.6 million to $38.4 million, or 33% as compared to the three months ended September 30, 2010, as a result of higher volumes and higher raw material costs. Gross profit increased for the three months ended September 30, 2011 by $3.2 million to $10.3 million. For the three months ended September 30, 2011, selling, general and administrative expenses increased by $800,259 to $2.5 million, or 45%, as compared to the three months ended September 30, 2010. The increase was primarily attributable to higher management incentive fees and sales commissions.

Liquidity and Capital Resources – September 30, 2011

The Company recognized net income of $11.4 million for the year ended September 30, 2011 and generated a positive cash flow from operating activities of $8.2 million for the year ended September 30, 2011. The Company used $7.3 million in operating activities and had an accumulated deficit of $314.7 million and a stockholders' deficiency of $26.6 million at September 30, 2011.

The Mill relies on cash flows from operations and a credit facility to fund its operations.

On September 30, 2011, KES entered into the Amended and Restated Revolving Credit, Term Loan and Security Agreement (the "Loan Agreement") with PNC Bank, National Association. The Loan Agreement provides for an asset-based revolving credit line of $30 million (the "Revolver") and a term loan of $6 million (the "Term Loan," and together with the Revolver, the "Credit Facility"), which is an increase from KES' prior credit line of $23 million and term loan of $4 million. The Term Loan and the Revolver bear interest at variable rates based on the LIBOR or the base commercial lending rate of PNC as publicly announced from time to time. As of September 30, 2011, the outstanding balance on the Term Loan was $6,000,000 and the interest rate was 7.25% and the outstanding balance on the Revolver was $16,725,304 and interest rate was 5.25%. The Credit Facility is secured by all the assets of KES and contains customary covenants, including financial covenants requiring KES to maintain certain fixed charge coverage and leverage ratios and has been presented as a non-current liability in the balance sheet. In addition, the Credit Facility contains an event of default if Jess Ravich is no longer on the ALJ Board of Directors. As of September 30, 2011, KES was in compliance with all specified covenants. In the event that KES is not in compliance with the financial covenants in any future period, KES intends to seek a waiver of any default from the lender, and if no such waiver is received, the lender would have the right to accelerate the maturity of the line of credit at that time. The Term Loan is to be repaid in equal principal payments of $500,000 per quarter over twelve quarters plus certain mandatory prepayments. The Revolver expires on September 30, 2014.

KES used proceeds of the Credit Facility as follows: (i) $11.7 million of the proceeds to redeem $9.1 million of principal and $2.9 million of accrued but unpaid interest on its 8% subordinated loans, leaving $19.8 million of principal and $1.6 million of accrued interest outstanding on such 8% subordinated loans and (ii) to repay the outstanding amounts under the Company's prior credit facility. In conjunction with the repurchase of the 8% subordinated loans, the Company recognized a gain on the forgiveness of debt of $337,320.

Mr. Ravich, together with two related trusts, collectively guaranteed the Term Loan. KES agreed to pay a one-time fee of $200,000 to the guarantors. The agreement with the guarantors provides that in the event that Mr. Ravich is no longer a director of ALJ, other than by voluntary resignation, then a guaranty premium fee of $500,000 will be paid to the Ravich Children Permanent Trust of 1989. The terms of the guaranty and guaranty fee were approved by the independent members of each of the ALJJ and KES Boards of Directors.

In a related transaction on September 30, 2011, KES repurchased 2,928 shares of its Series B Common Stock for an aggregate consideration of $36,599, or approximately $12.50 per share. There are now 13,063 shares of Series B Common Stock outstanding. This increased ALJ's ownership of KES by 3.66% to 83.87%.

Substantially all of the Company's assets are owned by KES. Pursuant to the terms of the Company's credit documents, ALJ is currently limited in its ability to receive cash distributions from KES but is permitted to receive tax sharing payments as described below. For taxable periods beginning after February 28, 2005, KES has been included in the consolidated federal income tax return filed by ALJ as the common parent. KES has entered into a Tax Sharing Agreement with ALJ pursuant to which it has agreed to pay ALJ an amount equal to 50% of its respective "separate company tax liability" (as such term is defined in the Tax Sharing Agreement). ALJ has approximately $259 million in net operating loss carryovers currently available to offset the consolidated federal taxable income of the affiliated group in the future. As of September 30, 2011, ALJ has accumulated $2,451,425 of tax sharing payments related to the fiscal year ended September 30, 2011.

At September 30, 2011, KES was in compliance with all financial covenants under the Credit Facility based on its financial statements.

To the extent that the Mill generates taxable income, the Tax Sharing Agreement with KES will generate cash payments to ALJ equal to 50% of KES' "separate company tax liability," subject to compliance with the Credit Facility. The tax sharing payments computed for ALJ for the year ended September 30, 2011 were $2.5 million. ALJ has approximately $259 million of federal net operating loss carryovers currently available to offset any federal income tax liability of KES in subsequent periods. ALJ expects that its federal net operating loss carryovers will be sufficient to absorb most of any future federal income tax liability of KES.

The long-term economic viability of the Mill and its ability to fund its operations and debt service requirements, including maintaining compliance with various debt covenants and servicing the interest and principal obligations under the Credit Facility and Subordinated Financing Agreement and the dividends and redemption features on the Series A Preferred Stock issued in connection with the acquisition of the Mill, is dependent on various internal and external factors, including the Mill's ability to operate on a sustained basis and at sufficient capacity. To the extent that the Mill is not able to maintain an appropriate operating threshold, the ability of the Mill to generate sufficient cash flows to fund its operations and debt service requirements and maintain compliance with various debt covenants may be impaired.

Operating Activities

During the year ended September 30, 2011, the Company generated $8.2 million from operating activities, primarily attributable to net income of $11.4 million, partially offset by an increase in the Company's net deferred tax asset of $2.7 million and increases in accounts payable of

$3.8 million and accrued expenses of $3.2 million partially offset by increases in inventory of $7.1 million and accounts receivables of $3.4 million.

Financing Activities

For the year ended September 30, 2011, the Company used $7.3 million in financing activities primarily attributable to the repurchase of $11.9 million in Subordinated Loans and the repayment of $3.5 million in term loans partially offset by additional borrowings of $3.5 million on the Credit Facility and $6.0 million on the new Term Loan to PNC Bank.

Principal Commitments

At September 30, 2011, the Company's principal commitments consisted of the following obligations:

	Payments Due by 12 Month Periods Ending September 30, (in thousands)					
Contractual cash obligations	**Total**	**2012**	**2013**	**2014**	**2015**	**Thereafter**
8% Subordinated loan payable	21,147	---	---	---	---	21,147
Revolver – PNC	16,725	---	---	16,725	---	---
Operating leases	2,035	724	724	497	45	45
Capital lease obligation	171	171	---	---	---	---
Term loan payable	6,000	2,000	2,000	2,000	---	---
Lake Forest loan payable	535	535	---	---	---	---
Management services agreement	2,800	700	700	700	700	---
13% Series A Preferred Stock of subsidiary subject to mandatory redemption, including accrued dividends	11,030	---	---	---	---	11,030
Total contractual cash obligations	$ 60,443	$4,130	$3,424	$19,922	$ 745	$32,222

At September 30, 2011, the Company did not have any material commitments for capital expenditures.

At September 30, 2011, the Company has various short-term commitments for the purchase of materials, supplies and energy arising in the ordinary course of business which aggregated approximately $3,036,000.

Off-Balance Sheet Arrangements

The Company does not have any transactions, obligations or relationships that could be considered off-balance sheet arrangements at September 30, 2011.

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
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CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, John Scheel, certify that:

1. I have reviewed this annual report of ALJ Regional Holdings, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this annual report.

Date: December 30, 2011

/s/ John Scheel
John Scheel, Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, T. Robert Christ, certify that:

1. I have reviewed this annual report of ALJ Regional Holdings, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this annual report.

Date: December 30, 2011

/s/ T. Robert Christ
T. Robert Christ, Chief Financial Officer

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2011, 2010, and 2009

	2011	2010	2009
ASSETS			
Current assets:			
Cash and cash equivalents	$ 1,282,228	$ 391,470	$ 779,841
Accounts receivable, less allowance for doubtful accounts of $703,532, $576,882, and $663,021, respectively	14,522,393	11,030,780	9,435,003
Inventory	28,351,131	21,272,658	17,726,138
Prepaid expenses and other current assets	1,310,364	1,078,846	612,883
Other receivables	-	430,822	-
Deferred tax asset	3,059,567		
Total current assets	$ 48,525,683	$ 34,204,576	$ 28,553,865
Property, plant and equipment	$ 5,107,203	$ 5,107,203	$ 5,107,203
Less accumulated depreciation and amortization	(2,573,958)	(2,200,111)	(1,799,589)
Property, plant and equipment, net	$ 2,533,245	$ 2,907,092	$ 3,307,614
Other assets:			
Deferred loan costs, net	$ 398,719	$ 176,712	$ 621,528
Deposits	924,460	924,460	906,435
Investment in Bellator	90,228	241,769	212,500
Total other assets	1,413,407	1,342,941	1,740,463
Total assets	$ 52,472,335	$ 38,454,609	$ 33,601,942

(continued)

See accompanying notes to consolidated financial statements.

	2011	2010	2009
LIABILITIES AND STOCKHOLDERS' DEFICIENCY			
Current liabilities:			
Accounts payable	$ 9,888,998	$ 6,111,990	$ 7,981,779
Accrued expenses	3,378,535	2,289,189	2,553,796
Accrued interest payable	1,476,233	2,290,349	2,154,788
Income taxes payable	867,300	328,073	189,140
Current portion of loan payable – Ableco	-	-	2,188,736
Current portion of term loans	2,535,208	3,209,395	
Current portion of capital lease obligation	171,792	152,233	135,099
Liabilities related to discontinued operations	2,984,660	2,984,660	2,984,660
Total current liabilities	$ 21,302,726	$ 17,365,889	$ 18,187,998
Non-current liabilities:			
4% loan payable, $0 outstanding at September 30, 2011, $1.3 million plus cumulative interest of $847,268 at September 30, 2010, and $1.9 million plus cumulative interest of $915,183 at September 30, 2009	-	2,147,268	2,815,183
8% subordinated secured loans	19,832,003	29,882,226	27,857,522
Secured line of credit	16,725,304	13,181,106	4,524,332
Loan payable – Ableco	-	-	3,403,275
Term loan payable, less current portion	4,000,000	823,880	
Capital lease obligation, less current portion	-	171,792	324,026
Series A Preferred stock of subsidiary subject to mandatory redemption; 13% cumulative, non-convertible, redeemable preferred stock, mandatory redemption and liquidation value of $1,000 per share; 5,936 shares issued and outstanding at September 30, 2011 plus cumulative dividends of $5,093,760, 5,936 shares issued and outstanding at September 30, 2010 plus cumulative dividends of $4,321,885, 12,500 shares issued and outstanding at September 30, 2009 plus cumulative dividends of $7,470,548	11,029,760	10,257,885	19,970,548
Series A Preferred stock subject to mandatory redemption; 4% cumulative, non-convertible, redeemable preferred stock, mandatory redemption and liquidation value of $4.00 per share; There were no shares issued and outstanding at September 30, 2011, 374,556 shares issued and outstanding at September 30, 2010 plus cumulative dividends of $775,790, and 374,556 shares issued and outstanding at September 30, 2009 plus cumulative dividends of $715,861	-	2,274,014	2,214,085
Deferred tax liability	383,158	-	-
Minority interest – related parties	5,775,831	4.064,492	2,781,329
Total liabilities	$ 79,048,782	$ 80,168,552	$ 82,078,298
Commitments and contingencies			
Stockholders' deficiency:			
Preferred stock, $0.01 par value; authorized - $5,000,000 shares; issued and outstanding at September 30, 2011 – There were no shares of Series A preferred stock outstanding at September 30, 2011, 374,556 shares of Series A preferred stock, at September 30, 2010 and 2009 (classified in long-term liabilities as preferred stock subject to mandatory redemption)			
Common stock, $0.01 par value; authorized – 100,000,000 shares; 56,934,040, 49,729,574, and 48,665,104 issued and outstanding as of September 30, 2011, 2010 and 2009	$569,340	$497,295	$486,651
Additional paid in capital	$ 288,365,584	$ 284,717,264	$ 283,653,895
Accumulated deficit	$(314,681,795)	$(326,098,926)	$(331,787,326)
Treasury stock – 607,500 shares, at cost	(829,576)	(829,576)	(829,576)
Total stockholders' deficiency	$ (26,576,447)	$ (41,713,943)	$ (48,476,356)
Total liabilities and stockholders' deficiency	$ 52,472,335	$ 38,454,609	$ 33,601,942

See accompanying notes to consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED September 30, 2011, 2010 and 2009

	2011	2010	2009
NET SALES	$ 162,020,525	$ 112,828,496	$ 110,079,361
COSTS AND EXPENSES			
Cost of sales	$ 137,455,886	$ 96,952,237	$ 97,601,925
Selling	2,071,418	1,695,618	1,684,370
General and administrative	7,281,690	5,653,532	5,245,875
Total	$ 146,808,994	$ 104,301,387	$ 104,532,170
Income from operations	$ 15,211,531	$ 8,527,109	$ 5,547,191
OTHER INCOME (EXPENSE)			
Interest income	$ 53,656	$ 14,201	$ 17,124
Interest expense:			
13% Series A Preferred Stock	(771,875)	(1,332,834)	(1,625,000)
8% Subordinated Notes payable	(2,470,830)	(2,390,578)	(2,158,273)
Other	(1,021,150)	(1,178,708)	(1,660,654)
Loss on investments	(151,541)	-	-
Other income (expense), net	583,848	3,968,553	350,429
Total Other income (expense), net	$ (3,777,892)	$ (919,366)	$ (5,076,374)
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTEREST	$ 11,433,639	$ 7,607,743	$ 470,817
Income tax – current	(1,058,074)	(656,759)	(190,867)
Income tax – deferred	2,752,904	20,578	(160,916)
Total income tax	1,694,830	(636,181)	(351,783)
INCOME (LOSS) BEFORE MINORITY INTEREST	$ 13,128,469	$ 6,971,562	$ 119,034
MINORITY INTEREST – related parties	1,711,338	1,283,162	65,873
INCOME (LOSS) FROM OPERATIONS	$ 11,417,131	$ 5,688,400	$ 53,161
NET INCOME PER COMMON SHARE -			
Basic	$0.21	$0.12	$0.00
Diluted	$0.21	$0.11	$0.00
NUMBER OF COMMON SHARES OUTSTANDING			
Basic	53,331,807	49,197,339	47,133,061
Diluted	54,856,807	49,722,339	49,605,283

See accompanying notes to consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY
YEARS ENDED September 30, 2011, 2010 and 2009

	Common Stock					
	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total
Balances at September 30, 2008	47,133,061	$ 465,335	$ 282,956,049	$ (331,840,487)	$ (829,576)	$ (49,248,679)
Exercise of Stock Options	663,637	12,632	1,161			13,793
Restructuring November 10, 2008	500,000	5,000	458,810			463,810
Share based compensation						
Restricted Stock	368,406	3,684	53,048			56,732
Stock Options			184,827			184,827
Net Income				53,161		53,161
Balances at September 30, 2009	48,665,104	$ 486,651	$ 283,653,895	$ (331,787,326)	$ (829,576)	$ (48,476,356)
Exercise of Stock Options	300,000	3,000	9,000			12,000
Restructuring 4% ALJ Note	600,000	6,000	186,000			192,000
Restructuring of 13% Preferred Stock			656,249			656,249
Share based compensation						
Restricted Stock	164,470	1,644	31,250			32,894
Stock Options			180,870			180,870
Net Income				5,688,400		5,688,400
Balances at September 30, 2010	49,729,574	497,295	284,717,264	(326,098,926)	(829,576)	(41,713,943)
Restructuring of 4% Preferred Stock	3,774,632	37,746	1,849,569			1,887,315
Restructuring of 4% ALJ Note	3,429,834	34,299	1,680,619			1,714,918
Retirement of 2,928 Shares of KES Treasury Stock			(36,599)			(36,599)
Share based compensation						
Restricted Stock			29,528			29,528
Stock Options			125,203			125,203
Net Income				11,417,131		11,417,131
Balances at September 30, 2011	56,934,040	569,340	288,365,584	(314,681,795)	(829,576)	(26,576,447)

See accompanying notes to consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED September 30, 2011, 2010 and 2009

		2011		2010		2009
CASH FLOWS FROM OPERATING ACTIVITIES						
Net Income	$	11,417,131	$	5,688,400	$	53,161
Adjustments to reconcile net loss to net cash used in operating activities:						
Share based compensation		154,731		212,120		239,036
Depreciation and amortization		550,559		400,522		768,823
Provision for bad debts		(126,650)		(86,139)		(84,029)
Gain on early extinguishment of 13% Preferred Stock		(147,941)		(3,729,995)		-
Gain on early extinguishment of 4% Notes Payable		(132,351)		(225,887)		-
Amortization of loan costs		-		444,816		-
Loss on investments		151,541		-		-
Minority interest - related parties		1,711,338		1,283,163		65,873
Changes in operating assets and liabilities:						
(Increase) decrease in -						
Accounts receivable, net		(3,364,963)		(1,509,638)		8,975,276
Inventories		(7,078,473)		(3,546,520)		14,591,212
Other assets		-		(158,824)		-
Prepaid expenses		199,305		(755,986)		200,232
Deferred tax asset		(3,059,567)				
Increase (decrease) in -						
Accounts payable		3,777,008		(1,869,789)		(6,995,178)
Income taxes payable		539,227		138,933		(339,354)
Accrued expenses (including unpaid cumulative dividends on preferred stock and interest payable)		3,176,708		315,227		(2,228,870)
Deferred tax liability		383,158		-		-
NET CASH PROVIDED BY OPERATING ACTIVITIES	$	8,150,761	$	(3,399,597)	$	15,246,182
CASH FLOWS FROM INVESTING ACTIVITIES						
Investment in Bellator	$	-	$	(29,269)	$	-
Investment in Planet Hollywood		-		-		-
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	$	-	$	(29,269)	$	-
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from line of credit, net	$	3,544,198	$	8,656,774	$	(13,681,417)
Payments on capital lease obligations and contract payables		(152,233)		(135,100)		80,719
Net payments from notes payable		-		-		-
Net borrowings related to 8% Subordinated note				2,160,265		2,210,308
Partial repayment on 8% Subordinated note		(11,867,492)				
Net proceeds from stock and options		-		12,000		32,000
Loan costs associated with refinancing		(711,053)		-		(621,528)
Additional borrowings (payments) from 4% Preferred Stock		38,843		59,929		78,246
Additional borrowings (payments) from 13% Preferred Stock		-		(5,712,609)		1,684,929
Cash payment on extinguishment of 4% Preferred Stock		(277,600)				
Cash payment on extinguishment of 4% notes payable – related party		(300,000)		(442,028)		(250,000)
Repayments on Abelco term loans		-		(5,592,011)		(4,951,401)
Repayments on PNC term loan		(3,514,714)		(500,000)		
Proceeds from issuance of PNC Term Loan		6,014,714		4,000,000		
Proceeds from issuance of Lake Forest Term Loan		535,208		533,275		
Repayments on Lake Forest Term Loan		(533,275)				
Repurchase of KES treasury stock		(36,599)				
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	$	(7,260,003)	$	3,040,495	$	(15,418,144)
NET CASH PROVIDED BY (USED IN) OPERATING, INVESTING AND FINANCING ACTIVITES	$	890,758	$	(388,371)	$	(171,962)
CASH AND CASH EQUIVALENTS						
Net increase (decrease)	$	890,758	$	(388,371)	$	(171,962)
Balance at beginning of period		391,470		779,841		951,803
Balance at end of period	$	1,282,228	$	391,470	$	779,841
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:						
Interest paid	$	5,024,022	$	4,656,657	$	5,287,526
Income taxes paid	$	2,620,703	$	1,593,869	$	859,213

Noncash investing and financing transactions:

As part of the Company's debt restructuring in 2011, described in Note 10, the Company has realized a gain of approximately $335,000 related to principal and accrued interest forgiven. Of this gain, approximately, $25,000 was recognized in 2011. The remaining portion of the gain from the restructure, approximately $310,000, was used to offset approximately $710,000 of loan and legal fees which are being amortized over the life of the loan.

In June 2011, ALJ extinguished the remaining $2.1 million of 4% Note Payable for $300,000 in cash and 3,429,834 shares of ALJ Common Stock.

In June 2011, ALJ exchanged 305,156 shares of ALJ Preferred Stock for 3,774,632 shares of ALJ Common Stock.

As part of the Company's debt restructuring in 2010, described in Note 10 related to the 13% Preferred Stock, the Company has recorded $626,250 as a credit to additional paid-in capital and realized a gain of approximately $3.7 million related to accrued dividends forgiven. This gain is the net result of the gain being offset with approximately $750,000 in loan and legal fees related to the debt restructure.

During the year ended September 30, 2010, the Company repurchased $500,000 of its 4% note payable, plus $213,810 of accrued interest in exchange for $300,000 of cash and 600,000 shares of ALJ's common stock.

The Company renewed its capital lease agreement during 2010 in the amount of $578,918.

See accompanying notes to consolidated financial statements.

1. Organization and Basis of Presentation

The Accounting Standards Codification

In June 2009, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 168, entitled The FASB Accounting Standards Codification of the Hierarchy of Generally Accepted Accounting Principles ("GAAP"). In substance, SFAS No. 168 makes the FAS Accounting Standards Codification ("ASC") the sole source of authoritative accounting technical literature for nongovernmental entities. All accounting guidance that is not included in the ASC now is considered to be non-authoritative. The ASC is effective for interim and annual reporting periods ending after September 15, 2009. The Company adopted the ASC upon issuance, with no material impact to the financial statements.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of ALJ Regional Holdings, Inc. (fka YouthStream Media Networks, Inc., "ALJ"), and its majority-owned subsidiary KES Acquisition Company ("KES") (see Note 3) (collectively, the "Company").

Commencing March 1, 2005, the Company has included the operations of a steel mini-mill located in Ashland, Kentucky, which represents the only business segment in which the Company currently operates, in its consolidated financial statements (see Note 3). All inter-company items and transactions have been eliminated in consolidation.

Going Concern

Based on its current level of operations, the Company believes that its current cash resources provided by operations and the secured line of credit will be adequate to fund its operations for the next twelve months. However, to the extent the Company's estimates are inaccurate or its assumptions are incorrect, the Company may not have sufficient cash resources to fund its operations. In such event, the Company may have to consider a formal or informal restructuring or reorganization, including a sale or other disposition of its assets.

The Company's management may also consider various strategic alternatives in the future, including the acquisition of new business opportunities, which may be from related or unrelated parties. However, there can be no assurances that such efforts will ultimately be successful. The Company may finance any acquisitions through a combination of debt and/or equity securities.

2. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

ALJ is a holding Company, whose primary asset is a majority share of KES Acquisition Company ("KES"), a steel mini-mill that manufactures and sells steel bar flats.

Cash and Cash Equivalents

Cash and equivalents include all cash, demand deposits and money market accounts with original maturities of three months or less.

Accounts Receivable

The Company grants credit to its customers generally in the form of short-term trade accounts receivable. Management evaluates the credit risk of its customers utilizing historical data and estimates of future performance.

Accounts receivable are stated at the amount management expects to collect from outstanding balances. When appropriate, management provides for probable uncollectible amounts through a provision for doubtful accounts and an adjustment to a valuation allowance. Management reviews and adjusts this allowance periodically based on the aging of accounts receivable balances, historical write-off experience, customer concentrations, customer creditworthiness, and current industry and economic trends. Balances that are still outstanding

after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Inventory

Inventories are comprised of raw materials (consisting of alloys and scrap metal), semi-finished goods (billets) and finished goods. Inventory costs include material, labor and manufacturing overhead. Inventories are valued at the lower of average cost or market. The average cost of the billets and scrap metal is adjusted periodically to reflect current changes in cost inputs. The market value of billet and scrap metal inventories was determined using replacement costs.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Expenditures for routine maintenance and repairs are charged to expense as incurred. Expenditures for equipment renewals and improvements, which extend the useful life of an asset, are capitalized. Certain equipment held under capital lease is classified as property, plant and equipment, and the related obligation is recorded as a liability. Lease amortization is included in depreciation expense.

Depreciation is provided on the straight-line method over the estimated useful lives of the assets, generally 3 to 20 years for machinery and equipment, and 20 to 40 years for buildings and improvements. Equipment under capital lease is amortized using the straight-line method over the primary lease term.

Impairment of Long-Lived Assets

Long-lived assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An asset is considered impaired if its carrying amount exceeds the future net cash flow the asset is expected to generate. If an asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds its fair market value. The recoverability of long-lived assets is assessed by determining whether the unamortized balances can be recovered through undiscounted future net cash flows of the related assets. The amount of impairment, if any, is measured based on projected discounted future net cash flows using a discount rate reflecting the Company's average cost of capital.

Loan Costs

The Company is amortizing loan costs from origination date through the loan maturity date. The loan cost amortization expense was $0, $444,816 and $444,816 for the year ended September 30, 2011, 2010 and 2009, respectively.

Income Taxes

The Company uses the asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax-credit carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amount of assets and liabilities and their tax bases. Deferred tax assets are reduced by the valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company's judgments relative to the current provision for income taxes take into account current tax laws, our interpretation of current tax laws and possible outcomes of current and future audits conducted by tax authorities. The Company files income tax returns in the U.S. federal jurisdictions and various state jurisdictions and is subject to U.S. federal tax and state tax examinations for years ranging from 2003 to 2010. The Company's judgments relative to the value of deferred tax assets and liabilities take into account estimates of the amount of future taxable income. Actual operating results and the underlying amount of income in future years could render current estimates of recoverable net deferred taxes inaccurate. Any of the judgments mentioned above could cause actual income tax obligations to differ from our estimates, thus materially impacting the Company's financial position and results of operations.

If the Company takes a recognized tax position or has taken a recognized tax position on a tax return that more likely than not would be sustained upon examination by tax authorities, then the Company will recognize the potential asset or liability in the financial statements. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Management believes that the Company has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accrual for tax liabilities are adequate for all open years on assessment of many factors including past experience and interpretation of tax law applied to the facts of each matter.

Deferred Acquisition Costs

Deferred acquisition costs related to pending transactions are accounted for as part of the purchase consideration if and when the transaction is completed. If the Company does not complete the transaction, those costs are charged to operations in the period that the Company's efforts to complete the transaction are terminated.

Revenue Recognition

The Company recognizes revenue when there is persuasive evidence that an arrangement exists, delivery of the product has occurred and title has passed, the selling price is both fixed and determinable, and collectability is reasonably assured, all of which generally occur either upon shipment of the Company's product or delivery of the product to the destination specified by the customer.

Shipping and Handling Fees and Costs

The Company reports shipping and handling fees charged to customers as part of net sales and the associated expense as part of cost of sales.

Operating Leases

Leases where substantially all the risks and rewards of ownership of the assets remain with the leasing company are accounted for as operating leases. Rent payable under operating leases is recorded as an operating cost in the statement of operations on a straight-line basis over the lease terms.

Stock-Based Compensation

The Company recognizes compensation expense for its equity awards on a straight-line basis over the requisite service period of the award based on the estimated portion of the award that is expected to vest and applies estimated forfeiture rates based on analyses of historical data, including termination patterns and other factors. Estimated forfeiture rates are applied based on analyses of historical data, including termination patterns and other factors. The Company uses the quoted closing market price of its common stock on the grant date to measure the fair value of restricted stock awards and the Black-Scholes option pricing model to measure the fair value of stock option awards. The expected volatility is based on historical volatilities of the Company's common stock over the most recent period commensurate with the estimated expected term of the awards. The expected term of an award is equal to the midpoint between the vesting date and the end of the contractual term of the award. The risk-free interest rate is based on the rate on U.S. Treasury securities with maturities consistent with the estimated expected term of the awards. The Company has not paid dividends and does not anticipate paying a cash dividend in the foreseeable future and, accordingly, use an expected dividend yield of zero.

Asset Retirement Obligations

The Company accounts for its asset retirement obligations in accordance with applicable standards which require that the discounted fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred, if a reasonable estimate of the fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset.

All material environmental remediation liabilities for non-capital expenditures, which are probable and estimatiable, are recorded in the financial statements based on current technologies and current environmental standards at the time of evaluation. Adjustments are made when additional information is available that suggests different remediation methods or periods may be required which affect the total cost.

Self-Insurance

The Company is self-insured for health care costs up to $45,000 per subscriber annually. Insurance coverage is carried for risks in excess of this amount. The Company recognized self-insured health care expense for the fiscal year ended September 30, 2011, 2010 and 2009 of approximately $3,282,000, $3,123,000, and $2,607,000, respectively. As of September 30, 2011, 2010 and 2009, estimated claims incurred but not reported were approximately $227,838, $445,600, and $414,400, respectively.

Fair Value of Financial Instruments

In September 2006, the FASB issued regulations in order to establish a single definition of fair value and a framework for measuring fair value under generally accepted accounting principles (GAAP) that is intended to result in increased consistency and comparability in fair value measurements with expanded disclosures about fair value measurements. These regulations apply whenever other authoritative literature requires (or permits) certain assets or liabilities to be measured at fair value, but does not expand the use of fair value. The Company adopted these regulations pertaining to non-financial assets and non-financial liabilities at the beginning of its 2009 fiscal year. This initial adoption did not have an impact on the Company's financial statements or footnote disclosures.

Concentrations

The Company maintains its cash balances with a number of financial institutions. The balances are insured by the Federal Deposit Insurance Corporation (FDIC). Before October 3, 2009, the FDIC insured cash balances up to a limit of $100,000. On October 3, 2009, the FDIC increased the insurance levels to $250,000. As of September 30, 2011, 2010, and 2009, the Company had uninsured cash balances of approximately $1,032,228, $141,000, and $303,000, respectively.

For the fiscal year ended September 30, 2011, the Company had four suppliers that accounted for approximately 65% of raw materials purchases, of which approximately $3.7 million was included in accounts payable at September 30, 2011. For the fiscal year ended September 30, 2010, the Company had three suppliers that accounted for approximately 65% of raw materials purchases, of which approximately $1.5 million was included in accounts payable at September 30, 2010. For the fiscal year ended September 30, 2009, the Company had three suppliers that accounted for approximately 42% of raw materials purchases, of which approximately $2.0 million was included in accounts payable at September 30, 2009.

For the fiscal year ended September 30, 2011, the Company had four customers that accounted for approximately 22% of net sales, of which approximately $4.4 million was included in accounts receivable at September 30, 2011. For the fiscal year ended September 30, 2010, the Company had four customers that accounted for approximately 23% of net sales, of which approximately $3.5 million was included in accounts receivable at September 30, 2010. For the fiscal year ended September 30, 2009, the Company had four customers that accounted for approximately 24% of net sales, of which approximately $3.8 million was included in accounts receivable at September 30, 2009.

Earnings Per Share

Basic net income or loss per share is computed by dividing net income or loss by the weighted average number of common shares outstanding for the period. Non-vested shares of restricted stock are not included in the computation of basic net income per share until vested. Diluted net income per share includes the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Diluted net income per share also includes the dilutive effect of nonvested shares of restricted stock.

The following table summarizes the basic and dilutive weighted average shares at September 30, 2011, 2010 and 2009:

	2011	2010	2009
Weighted average shares outstanding, basic	53,331,807	49,197,339	47,133,061
Dilutive effect of:			
Options to purchase common stock	1,525,000	525,000	1,972,222
Warrants to purchase common stock	0	0	500,000
Weighted average shares outstanding, diluted	54,856.807	49,722,339	49,605,283

Comprehensive Income (Loss)

Comprehensive income (loss) includes all changes in equity except those resulting from investments by owners and distributions to owners, including adjustments to minimum pension liabilities, accumulated foreign currency translation, and unrealized gains or losses on marketable securities. The Company did not have any items of comprehensive income (loss) for the years ended September 30, 2011, 2010 and 2009.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

3. Acquisition of Steel Mini-Mill

In September 2003, ALJ invested $125,000 to acquire a 1.00% membership interest in KES Holdings, LLC, a Delaware limited liability company (“KES Holdings”), which was formed to acquire certain assets of Kentucky Electric Steel, Inc., a Delaware corporation, consisting of the Mill pursuant to Section 363 of the United States Bankruptcy Code through its subsidiary, KES Acquisition Company, LLC, a Delaware limited liability company (“KES Acquisition”). The Mill had ceased production on or about December 16, 2002 and its prior owner had filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code on February 5, 2003. The Mill had been in operation for

approximately forty years and was refurbished by KES Acquisition subsequent to its acquisition. The refurbished Mill has been generating revenues since late January 2004. ALJ completed its acquisition of the Mill in March 2005.

4. Discontinued Operations

As of September 30, 2011, 2010 and 2009, the Company maintained an estimated accrual of liabilities associated with the discontinued operations of $2,984,660, $2,984,660 and $2,984,660, respectively, remaining from its discontinued businesses. The accrued liabilities consist primarily of severance, lease payments, tax payments and other costs related to the operations of the discontinued businesses.

5. Accounts Receivable

The Company's accounts receivable are summarized as follows at September 30, 2011, 2010, and 2009:

	2011	2010	2009
Accounts receivable	$ 15,225,925	$ 11,607,662	$ 10,098,024
Less: Allowance for doubtful accounts	(703,532)	(576,882)	(663,021)
Accounts receivable, net	$ 14,522,393	$ 11,030,780	$ 9,435,003

6. Inventories

Inventories are comprised of the following at September 30, 2011, 2010 and 2009:

	2011	2010	2011
Raw materials and scrap	$ 2,739,663	$ 2,264,749	$ 4,104,768
Semi-finished goods	14,317,669	10,682,554	8,967,882
Finished goods	11,293,799	8,325,355	4,653,488
Total	$ 28,351,131	$ 21,272,658	$ 17,726,138

7. Property, Plant and Equipment

Property, plant and equipment consisted of the following at September 30, 2010, 2009, and 2008:

	2011	2010	2009
Land	$ 142,498	$ 142,498	$ 142,498
Buildings and improvements	572,497	572,497	572,497
Machinery and equipment	4,392,208	4,392,208	4,392,208
Office equipment	---	---	---
Total	5,107,203	5,107,203	5,107,203
Less: Accumulated depreciation and amortization	(2,573,958)	(2,200,111)	(1,799,589)
Property, plant and equipment, net	$ 2,533,245	$ 2,907,092	$ 3,307,614

Depreciation and amortization expense for the years ended September 30, 2011, 2010 and 2009 was $373,847, $400,522, and $681,079, respectively.

8. Investments

In September 2009, the Company invested $212,500 in Bellator Sport Worldwide, LLC, (“Bellator”) an early development stage company specialized in the promotion, marketing, and development of mixed martial arts. During the year ended September 30, 2010 the Company invested $29,269 in Bellator. During the year ended September 30, 2011, the Company recognized a $151,541 loss on the investment in Bellator by writing down the investment to $90,228 as of September 30, 2011.

9. Capital Lease Obligations

As of September 30, 2011, the Company leases various equipment under a capital lease arrangement requiring monthly payments of $15,244 per month for a term of 4 years commencing June 1, 2008, reflecting a total obligation of $578,918. The Company determined the fair market value of this asset at the date of acquisition was $578,918. At September 30, 2011, future minimum annual lease payments under this capital lease arrangement are summarized as follows:

Years ending September 30,		
2012		182,924
Less amounts representing interest		(11,132)
Present value of minimum lease payments	$	171,792
Current maturities	$	171,792
Non-current maturities		0
	$	171,792

Assets recorded under capitalized lease arrangements as of September 30, 2011, 2010 and 2009 that are included above in Note 7 Property, Plant and Equipment consist of the following:

		2011		2010		2009
Machinery and equipment	$	578,918	$	578,918	$	578,918
Less: Accumulated depreciation and amortization		(347,352)		(231,568)		(115,784)
Property, plant and equipment, net	$	231,566	$	347,350	$	463,134

Depreciation expense for assets recorded under capital leases for the years ended September 30, 2011, 2010, and 2009 was $115,784, $115,784, and 420,346, respectively.

10. Long-Term Debt

Secured Credit Line and Restructure of Debt Obligations

On September 30, 2011, KES entered into the Amended and Restated Revolving Credit, Term Loan and Security Agreement (the “Loan Agreement”) with PNC Bank, National Association. The Loan Agreement provides for an asset-based revolving credit line of $30 million (the “Revolver”) and a term loan of $6 million (the “Term Loan,” and together with the Revolver, the “Credit Facility”), which is an increase from KES’ prior credit line of $23 million and term loan of $4 million. The Term Loan and the Revolver bear interest at variable rates based on LIBOR or the base commercial lending rate of PNC as publicly announced from time to time. As of September 30, 2011, the outstanding balance on the Term Loan was $6,000,000 and the interest rate was 7.25% and the outstanding balance on the Revolver was $16,725,304 and the interest rate was 5.25%. The Credit Facility is secured by all the assets of KES and contains customary covenants, including financial covenants requiring KES to maintain certain fixed charge coverage and leverage ratios and has been presented as a non-current liability in the balance sheet. In addition, the Credit Facility contains an event of default if Jess Ravich is no longer on the ALJ Board of Directors. As of September 30, 2011, KES was in compliance with all specified covenants. In the event that KES is not in compliance with any financial covenants, KES intends to seek a waiver of any default from the lender, and if no such waiver is received, the lender would have the right to accelerate the maturity of the Credit Facility at that time. The Term Loan is to be repaid in equal principal payments of $500,000 per quarter over twelve quarters plus certain mandatory prepayments. The Revolver expires on September 30, 2014.

KES used proceeds of the Credit Facility as follows: (i) $11.7 million of the proceeds to redeem $9.1 million of principal and $2.9 million of accrued but unpaid interest on its Subordinated Loans (defined below) issued under the Subordinated Financing Agreement (defined below), leaving $19.8 million of principal and $1.6 million of accrued interest outstanding on such Subordinated Loans and (ii) to repay the outstanding amounts under the 2010 Loan Agreement (defined below). In conjunction with the repurchase of the Subordinated Loans, the Company recognized a gain on the forgiveness of debt of $337,320.

Mr. Ravich, together with two related trusts, collectively guaranteed the Term Loan. KES agreed to pay a one-time fee of $200,000 to the guarantors. The agreement with the guarantors provides that in the event that Mr. Ravich is no longer a director of ALJ, other than by voluntary resignation, then a guaranty premium fee of $500,000 will be paid to the Ravich Children Permanent Trust of 1989. The terms of the guaranty and guaranty fee were approved by the independent members of each of the ALJJ and KES Boards of Directors.

The Company also has a loan payable to Lake Forest Bank and Trust Company. The loan is due in three equal payments of $181,472, including interest. The payments are due every three months beginning on December 1, 2011. The interest rate on the loan is 3.75%. The amount outstanding as of September 30, 2011 was $535,208. The Company had a similar loan in the prior year with a balance as of September 30, 2010 of $533,275. This prior loan was repaid in 2011.

Future scheduled principal payments on the loans are summarized as follows:

Years Ending September 30	Principal Payments
2012	$ 2,535,208
2013	2,000,000
2014	2,000,000
Total	$ 6,535,208

Historical Secured Lines of Credit and Term Loans

On May 28, 2010, KES entered into the Revolving Credit, Term Loan and Security Agreement (the “2010 Loan Agreement”) by and among KES and PNC. Under the terms of the 2010 Loan Agreement, the Company had the ability to borrow up to $23 million, subject to limitations under the lender’s borrowing base formula, compliance with a minimum fixed charge coverage ratio and leverage ratios. The lender’s borrowing base formula was based on KES’ cash, accounts receivable, inventory and certain reserves. Interest was payable monthly in arrears on the outstanding principal balance at variable rates based on LIBOR or the base commercial lending rate of PNC.As of September 30, 2010, there was a balance of $13,181,106 outstanding on the line of credit bearing interest at 6.00%. As of September 30, 2009, there was a balance of $2,524,332 outstanding on the line of credit bearing interest at 10.25% and $2,000,000 on bearing interest at 8.25%.All amounts outstanding under the 2010 Loan Agreement were repaid in connection with the closing of the Credit Facility.

As part of the 2010 Loan Agreement, the Company borrowed $4 million in a term loan from PNC (the “2010 Term Loan”). The 2010 Term Loan matured on May 28, 2012 and amortized at $500,000 per quarter over the period of June 1, 2009 through May 28, 2012. In addition, the Term Loan was subject to annual “excess cash flow” payments. As of September 30, 2010, the balance of the term loan was $3,500,000. The 2010 Term Loan had a variable interest rate based on the LIBOR or the base commercial lending rate of PNC. The2010 Term Loan was repaid on September 30, 2011 in connection with the closing of the Credit Facility.

In prior years, KES had entered into a Financing Agreement with Ableco Finance, L.L.C., providing for two term loans, the first for $15 million and a second one for $4 million. The two term loans had an amended maturity date of February 23, 2011.The term loans bore interest at variable rates based on the LIBOR rate or a “Reference Rate.” The term loans were paid in full as of September 30, 2010. As of September 30, 2009, the balance outstanding on the term loans was $5,592,011 with an interest rate of 10.25%. The $4 million term loan was guaranteed by related parties pursuant to a Limited Guaranty agreement dated February 23, 2007.

8% Subordinated Loans

Subordinated loans (the “Subordinated Loans”) consist of a series of loans due from KES under a Subordinated Financing Agreement dated July 20, 2009 by and among KES, the lenders party thereto and Ableco, L.L.C. (the “Subordinated Financing Agreement”), which replaced a series of subordinated secured promissory notes dated February 23, 2007, which were originally issued in March 2005 in connection with ALJ’s acquisition of KES. The Subordinated Loans are subordinate to the Credit Facility. The Subordinated Loans bear interest at 8% per annum, with interest payable annually. So long as the Credit Facility remains outstanding, the Company may, at its discretion, capitalize unpaid accrued interest into the outstanding Subordinated Loan principal. Principal on the Subordinated Loans is due and payable upon the earlier to occur of (i) an event of default under the Credit Facility or (ii) February 22, 2017. At September 30, 2011, 2010 and 2009, the principal

balance outstanding on the Subordinated Loans was $19,832,003, $29,882,226, and $27,857,522, respectively. Accrued interest on the Subordinated Loans as of September 30, 2011, 2010 and 2009 was $1,606,928, $2,390,578 and $2,228,601, respectively. Interest capitalized on Subordinated Loans for the years ended September 30, 2011, 2010 and 2009 was $1,315,487, $2,024,704, and $2,192,081, respectively. At September 30, 2011, 2010 and 2009, the portion of the Subordinated Loans payable to related parties was $10,222,814, $15,364,715, and $15,661,660, respectively. The Subordinated Loans are secured by a second priority security interest in all of KES' assets.

The subordinated lenders include affiliates of Ableco, L.L.C., ALJ and three directors who currently serve on ALJ's Board of Directors.

4% Subordinated Promissory Notes

The 4% Subordinated Note (the "ALJ Note") was originally issued by ALJ on January 24, 2003 and bore interest at a rate of 4% per annum, which was payable annually, provided that ALJ obtained certain thresholds. All outstanding principal and interest was originally due in 2011. During the year ended September 30, 2009, ALJ repurchased $500,000 of the aggregate principal and related accrued interest on the ALJ Note in exchange for $250,000 of cash and 500,000 shares of ALJ Common Stock. During the year ended September 30, 2010, ALJ repurchased $600,000 of aggregate principal plus $304,945 of accrued interest for consideration of $492,000. The purchase price was $300,000 in cash and 600,000 shares of ALJ's common stock, valued at $192,000 or $0.32 per share. The ALJ Note was also extended to June 30, 2014. The repurchase of a portion of the ALJ Note effected May 28, 2010 was treated as an early retirement of debt, as a result the carrying value of the ALJ Note was reduced to $2.1 million and no additional interest was accrued on the ALJ Note. On June 16, 2011, ALJ retired the remaining outstanding balance of the ALJ Note in consideration for $300,000 in cash and the issuance of 3,429,834 shares of ALJ's common stock. The outstanding principal balance of the ALJ Note as of September 30, 2011, 2010 and 2009 was $0, $1.3 million and $1.9 million, respectively. Interest accrued on the ALJ Note as of September 30, 2011, 2010 and 2009 was $0, $847,268 and $915,183, respectively.

Each of the foregoing transactions was approved by the Board of Directors of ALJ.

11. Redeemable Preferred Stock

4% Series A Preferred Stock

In January 2003, pursuant to the ALJ amended articles of incorporation, ALJ issued 1,000,000 shares of 4% Series A Preferred Stock with the following rights, preferences and privileges:

a. Dividend Rights. The holders of the shares of 4% Series A Preferred Stock were entitled to receive cumulative preferential dividends in cash at the rate of 4% per year on the face amount of $4 per share payable quarterly. The dividends were payable, when and as declared by the ALJ Board of Directors, out of funds legally available for that purpose, upon a liquidation event or upon redemption of the 4% Series A Preferred Stock.

b. Redemption. ALJ was to redeem all of the outstanding shares of 4% Series A Preferred Stock as of December 31, 2010 at $4.00 per share, plus all accrued and unpaid dividends thereon. As of September 30, 2011, 2010 and 2009, the redemption value of the issued and outstanding shares of 4% Series A Preferred Stock recorded on ALJ's consolidated balance sheet was $0, $2,274,014, and $2,214,085, respectively.

c. Convertibility and Voting Rights. The 4% Series A Preferred Stock was not convertible into any other security of ALJ, and the holders thereof had no voting rights except with respect to any proposed changes in the preferences and special rights of such stock or except as granted to holders by law.

In May 2008, ALJ exchanged 437,944 shares of its outstanding 4% Series A Preferred Stock, with a value of $1,751,776 plus accrued dividends of $733,892 for 4,957,515 shares of ALJ common stock at a value of $0.50 per share. The value of the stock as of the date of the exchange was $0.47 per share.

On February 15, 2011, ALJ repurchased 69,400 shares of its 4% Series A Preferred Stock, plus accrued dividends thereon for an aggregate consideration of $277,600 (the "2011 Stock Repurchase"), from three individuals, two of whom are related parties. The repurchased stock had a face value of $277,600 plus accrued dividends of approximately $147,941. ALJ recognized a gain of $147,941 in connection with the 2011 Stock Repurchase.

On June 16, 2011, ALJ exchanged 305,156 shares of its 4% Series A Preferred Stock (the "Exchanged Stock"), plus accrued dividends thereon for aggregate consideration of 3,774,632 shares of ALJ's Common Stock (the "Stock Exchange"). Following the Stock Exchange, there are no shares of 4% Series A Preferred Stock outstanding. The aggregate liquidation value of the 4% Series A Preferred Stock outstanding at June 16, 2011 was approximately $1,887,316. The Stock Exchange took place at an implied price of $0.50 per share. All 305,156 shares of Exchanged Stock were held by an affiliated party.

Each of the foregoing transactions was approved by the Board of Directors of ALJ.

Pursuant to SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity," because the 4% Series A Preferred Stock provided for a mandatory redemption in cash, it was classified as a long-term liability at the future redemption value for the years ended September 30, 2010 and 2009.

13% Series A Preferred Stock

In connection with the acquisition of the steel mini-mill (see Note 3), and pursuant to its articles of incorporation, KES issued 25,000 shares of its 13% Series A Preferred Stock with the following rights, preferences and privileges:

a. Dividend Rights. The holders of the 13% Series A Preferred Stock are entitled to receive cumulative dividends in cash at the rate of 13% per year on the face amount of $1,000 per share payable concurrent with the redemption of the 13% Series A Preferred Stock. The dividends are payable, when and as declared by KES' Board of Directors, out of funds legally available for that purpose, upon a liquidation event or upon redemption of the 13% Series A Preferred Stock.

b. Liquidation and Redemption. The 13% Series A Preferred Stock contains a liquidation preference equal to $1,000 per share, plus accrued but unpaid dividends, and is redeemable out of, and to the extent of, legally available funds, at a redemption price equal to the sum of $1,000 and all accrued but unpaid dividends on the first anniversary of KES' full and complete repayment of the Subordinated Loans. As of September 30, 2011, the balance outstanding on the 13% Series A Preferred Stock was $5,936,000, related accrued dividends payable were $4,320,385 and $1,899,000 of the preferred stock was held by related parties. As of September 30, 2010, the balance outstanding on the 13% Series A Preferred Stock was $5,936,000, related accrued dividends payable were $4,321,885 and $1,899,000 of the preferred stock was held by related parties. As of September 30, 2009, the balance outstanding on the 13% Series A Preferred Stock was $12,500,000, related accrued dividends payable were $7,470,548 and $4,000,000 of the preferred stock was held by related parties.

c. Convertibility and Voting Rights. The 13% Series A Preferred Stock is not convertible into any other security of the Company, and the holders thereof have no voting rights except with respect to any proposed changes in the preferences and special rights of such stock or except as granted to holders by law.

On May 28, 2010, KES repurchased 6,564 shares of its 13% Series A Preferred Stock plus accrued dividends thereon for aggregate consideration of $5.9 million. The Company used proceeds from the 2010 Loan Agreement to repurchase the preferred stock. The Company recorded $656,250 as a credit to additional paid-in capital and recognized a gain of approximately $4.5 million related to accrued dividends forgiven. The gain of $4.5 million was netted against $750,000 in loan and legal fees related to the 2010 Loan Agreement. The Repurchased Stock had a face value of approximately $6.6 million plus accrued dividends of approximately $4.5 million. These transactions were approved by the Board of Directors of KES and ratified by the ALJ Board of Directors.

Pursuant to SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity," because the 13% Series A Preferred Stock provides for mandatory redemption in cash, it is classified as a long-term liability at the redemption value at September 30, 2011 of $11,029,760 including cumulative dividends of $5,092,260.

12. Income Taxes

For the twelve months ended September 30, 2011, 2010 and 2009, the Company had income tax expense due to taxable income from operations. The provision for income taxes related to continuing operations for the twelve months ended September 30, 2011, 2010, and 2009, consisted of the following:

	2011	2010	2009
Income tax expense – current			
Federal	$ 247,914	$ 171,540	$ 153,548
State	810,160	485,219	37,319
	$ 1,058,074	$ 656,759	$ 190,867
Income tax benefit – deferred			
Federal	$ 3,621,644	$ 1,839,961	$ 76,864
State	(79,548)	(15,710)	84,052
Change in valuation allowance	(6,295,000)	(1,844,829)	-
	(2,752,904)	(20,578)	160,916
	$ (1,694,830)	$ 636,181	$ 351,783

Significant components of the Company's deferred tax liabilities and assets as of September 30, 2011, 2010 and 2009 are as follows:

	2011	2010	2009
Net deferred tax assets:			
Net operating loss carryforwards	$90,809,945	$94,714,588	$ 96,624,591
Accrued interest/dividends	143,030	161,912	179,402
Management incentive	488,372	182,945	96,880
Accrued health care cost	52,403	102,485	95,312
Accrued remediation cost	14,863	13,075	11,620
Allowance for doubtful accounts	161,812	132,683	152,495
Accrued vacation	2,044	10,651	7,722
Share-based compensation	-	-	49,416
Other			
Net deferred tax asset	$ 91,672,469	$ 95,318,339	$ 97,217,438
Net deferred tax liabilities			
Tax depreciation in excess of book	$ (414,815)	$ (440,855)	$ (422,073)
Asset retirement obligation	31,657	30,418	29,226
Net deferred tax liabilities	$ (383,158)	$ (410,437)	$ (392,847)
Total net deferred tax assets	$ 91,289,311	$ 94,907,902	$ 96,824,591
Less Valuation Allowance	$(88,612,902)	$(94,907,902)	$(96,824,591)
	$ 2,676,409	$ -	$ -

Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Company files income tax returns in the U.S. federal jurisdiction and various states. The Company is subject to tax examinations for periods post 2005 by federal, state and local tax authorities for various tax liabilities incurred by the parent entity and its subsidiaries, including any discontinued businesses. The amount of any tax assessments and penalties may be material and may negatively impact the Company's operations. Given the uncertainty in the amount and the difficulty in estimating the probability of the assessments arising from future tax examinations, the Company has not made any accruals for such tax contingencies.

For the twelve months ended September 30, 2011, the net deferred tax assets increased by $2,676,409. This increase was primarily the result of the reduction in the valuation allowance against the net deferred tax asset.

In assessing the realization of deferred tax assets, the Company performed an analysis of the available evidence to determine whether it is more likely than not that some portion or all of the deferred tax assets can be realized. One factor considered is the ability of the Company to generate consistent future taxable income in the periods in which the temporary differences become deductible. The main component of the deferred tax assets is the net operating loss carry-forward. There has been significant positive evidence established by the Company to justify that only a partial valuation allowance is necessary. The Company has shown consistent profitability over the past three years. Management also projects continued taxable income. Management believes it will be able to recognize a portion of its Net Operating Loss over the coming years. Management has decided to realize a deferred tax asset for $2,676,409, record a current year tax benefit of $2,676,409 and reduce the valuation allowance established in the prior years by $2,676,409. A valuation allowance of $88,612,902 has been established against the net deferred tax asset of $91,289,311 as of September 30, 2011.

Effective October 1, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN48"). FIN48 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Management believes that the Company has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accrual for tax liabilities are adequate for all open years on assessment of many factors including past experience and interpretation of tax law applied to the facts of each matter.

The Company would recognize interest accrued related to unrecognized tax benefits in tax expense. The Company has not recognized or accrued any interest or penalties for the periods ended September 30, 2011, 2010 or 2009, respectively.

At September 30, 2011, the Company had a net operating loss carry-forward for federal income tax purposes of approximately $259,457,000 that expires from 2020 through 2028. The use of approximately $36,000,000 of this net operating loss in future years may be restricted under Section 382 of the Internal Revenue Code. The realization of the benefits of the net operating losses is dependent upon sufficient taxable income in future years. Lack of consistent future earnings, a change in ownership of the Company, or the application of the alternative minimum tax rules could adversely affect the Company's ability to utilize these net operating losses.

13. Share-based Compensation and Stock Options

The Company determined the fair value of all stock-based compensation, including stock options and warrants issued during the twelve months ended September 30, 2011, 2010 and 2009, by using the Black-Scholes option-pricing model. Included in the selling, general and administrative expenses for the twelve month periods ended September 30, 2011, 2010 and 2009, the Company recognized share-based share compensation expense of $154,731, $212,120, and $214,848, respectively, including $29,528, $31,250, and $30,021, respectively, related to the issuance of restricted stock and $125,203, $180,870, and $184,827, respectively, related to the issuance of stock options.

During the twelve months ended September 30, 2009, the Company issued 347,220 restricted shares to the Board of Directors as part of their compensation. These restricted shares will vest ratably over a one year period. The restricted shares were issued at an average weighted average share price of $0.18 per share. All of these restricted shares were fully vested as of September 30, 2011.

During the twelve months ended September 30, 2010, the Company issued 164,470 restricted shares to the Board of Directors as part of their compensation. These restricted shares will vest ratably over a one year period. The restricted shares were issued at an average weighted average share price of $0.38 per share. All of these restricted shares were fully vested as of September 30, 2011.

During the twelve months ended September 30, 2011, the Company issued 105,930 restricted shares to the Board of Directors as part of their compensation. These restricted shares will vest ratably over a one year period. The restricted shares were issued at an average weighted average share price of $0.38 per share. As of September 30, 2011 there were 26,483 shares subject to grants of restricted shares that have vested.

FASB Statement No. 123(R) requires all share-based payments to employees be recognized in the financial statements as compensation expense based on the fair value on the date of grant. The Company determines fair value of such awards using the Black-Scholes option-pricing model. The Black-Scholes model requires input of certain assumptions, including volatility, expected term, risk-free interest rates, and dividend yield. For restricted stock grants issued during the twelve months ended September 30, 2009, the Company computed volatility of 129% and a risk-free interest rate of 0.47%. For restricted stock grants issued during the twelve months ended September 30, 2010, the Company computed volatility of 135% and a risk-free interest rate of 0.32%. For restricted stock grants issued during the twelve months ended September 30, 2011, the Company computed volatility of 106% and a risk-free interest rate of 0.15%. Volatility was computed over the most recent period commensurate with the expected term of the options. The risk-free interest rate used was based on the rate of U.S. Treasury securities with maturities consistent with the expected term of the options or restricted stock. The Company has not paid dividends on its common stock and does not anticipate paying a cash dividend in the foreseeable future and accordingly, uses an expected dividend yield of zero.

The Company did not grant any stock options during the twelve months ended September 30, 2011, 2010 or 2009. As of September 30, 2011, there were options with respect to 2.8 million shares fully vested and outstanding. The weighted average remaining contractual life for the options was 5.5 years. The weighted average exercise price was $0.38 per share. The range of the exercise price per share is $0.23 per share to $0.59 per share.

There were no common stock warrants exercised or outstanding as of September 30, 2011.

14. Commitments and Contingencies

Operating Leases

The Company leases equipment, rail tracks and certain land. The lease term shall continue in effect until terminated by the Company or the lessor. Future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year are as follows at September 30, 2011:

Years Ending September 30,

2012	723,908
2013	723,908
2014	497,725
2015	45,359
2016	45,359
Total	$ 2,036,259

Total equipment rental expense amounted to $723,908, $723,908, and $450,439 for the years ended September 30, 2011, 2010, and 2009, respectively.

Operating Commitments

The Mill has been operating under a Management Agreement with a management company effective through September 30, 2015 pursuant to which the management company provides, at its expense, employees to serve as the general manager of the Mill and provide oversight and general management of the operations of the Mill. Pursuant to the Management Agreement, the management company receives an annual fee of $700,000, payable monthly, and bonus payments based on 16.6% of defined earnings before interest, taxes, depreciation and amortization ("EBITDA") in excess of $6,000,000 for the fiscal years ending September 30, 2005 and thereafter. Total management fee expense was $2,823,355, $1,498,061, and $1,083,582 for the twelve months ended September 30, 2011, 2010 and 2009. As of September 30, 2011, 2010 and 2009, the balance of accrued management fee was $2,123,355, $795,413, and $421,216, respectively.

The Company has various short-term commitments for the purchase of materials, supplies and energy arising in the ordinary course of business which aggregated approximately $3,593,000, $3,036,000, and $4,065,360 at September 30, 2011, 2010 and 2009, respectively.

The Company has a defined contribution pension plan for eligible employees who have completed one month of service and have attained the age of twenty-one. The Company's matching contribution equals 100% of each participant's elective deferral, not to exceed 6% of their eligible compensation. Participants are immediately vested in their deferred compensation and earnings thereon. The participant becomes 100% vested after one year of credited service. The Company may make other discretionary contributions to be determined on an annual basis. The Company's contributions charged to operations in the years ended September 30, 2011, 2010 and 2009 were approximately $462,000, $410,000, and 374,000, respectively.

Uncertainties and Contingencies

Historically, the Company has been subject to various lawsuits, claims and other legal actions arising in the ordinary course of business. As of December 30, 2011, management was not aware of any legal contingencies involving the Company. In the opinion of management, any potential matters involve such amounts that unfavorable disposition would not have a material adverse effect on the financial position or results of operations of the Company.

15. Subsequent Events

None.

PART E

EXHIBITS

Exhibit No.	Description
1*	First Amendment to Restated Certificate of Incorporation of ALJ Regional Holdings, Inc. as filed with the Secretary of State of the State of Delaware on June 1, 2010.
2	Restated Certificate of Incorporation of ALJ Regional Holdings, Inc. as filed with the Secretary of State of the State of Delaware on June 16, 2009 (incorporated by reference to Exhibit 1 to the Company's Quarterly Report for the quarter ended June 30, 2009 available at www.pinksheets.com.).
3	Certificate of Ownership and Merger of YouthStream Media Networks, Inc. as filed with the Secretary of State of the State of Delaware on October 23, 2006. (incorporated by reference to Exhibit 2 to the Company's Annual Report available at www.pinksheets.com posted on January 15, 2007)
4	Restated Bylaws of ALJ Regional Holdings, Inc. (incorporated by reference to Exhibit 7 to the Company's Quarterly Report for the quarter ended March 31, 2009 available at www.pinksheets.com.)
5	YouthStream Media Networks, Inc. 2000 Stock Incentive Plan (incorporated by reference to Exhibit 10.28 to YouthStream's Form 10-KSB filed with the SEC for the fiscal year ended June 30, 1999).
6**	First Amendment to the Amended and Restated Management Services Agreement by and between KES Acquisition Company and Pinnacle Steel, LLC dated February 23, 2007.
7	Amended and Restated Management Services Agreement, February 28, 2005, by and between KES Acquisition Company, LLC and Pinnacle Steel, LLC (incorporated by reference to Exhibit 10.83 to YouthStream's Form 8-K, filed with the SEC on March 14, 2005).
8**	Amended and Restated Tax Sharing Agreement by and between the ALJ Regional Holdings, Inc. and KES Acquisition Company.
9	Rights Agreement dated May 13, 2009 by and between ALJ Regional Holdings, Inc. and American Stock Transfer and Trust Company, LLC (incorporated by reference to Annex B to ALJ Regional Holdings proxy statement dated May 15, 2009 available at www.pinksheets.com).
10****	Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated as of September 30, 2011, by and among KES, the financial institutions from time to time a party thereto and PNC as a lender and agent for the lenders.
11*	Second Amendment to the Amended and Restated Management Services Agreement by and between KES Acquisition Company and Pinnacle Steel, LLC dated May 28, 2010.
12****	Third Amendment to the Amended and Restated Management Services Agreement by and between KES Acquisition Company and Pinnacle Steel, LLC dated September 30, 2011.

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*	Filed with the Company's Quarterly Report for the period ended June 30, 2010.
**	Filed with the Company's Quarterly Report for the period ended March 31, 2007.
***	Filed with the Company's Quarterly Report for the period ended June 30, 2009.
****	Filed with the Company's Annual Report for the period ended September 30, 2011.

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ALJ REGIONAL HOLDINGS, INC.

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON JULY 27, 2012

TO THE STOCKHOLDERS OF ALJ REGIONAL HOLDINGS, INC.:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of ALJ Regional Holdings, Inc., a Delaware corporation (the "**Company**"), will be held on July 27, 2012 at 9:00 a.m. Eastern Time at the offices of Morrison & Foerster LLP, 1290 Avenue of the Americas, 39th Floor, New York, New York 10104 for the following purposes:

1. To elect Jess M. Ravich as the one (1) Class III director to hold office until the Company's 2015 Annual Meeting of Stockholders or until his successor is elected and duly qualified or until his earlier resignation or removal.

2. To ratify the appointment of Mountjoy Chilton Medley LLP, formerly known as Mountjoy & Bressler, LLP ("**Mountjoy**"), as the independent registered public accounting firm for the Company's operating subsidiary KES Acquisition Company (and, if the Company were to proceed with a Listing (as defined below), to ratify the appointment of Mountjoy as the independent registered public accounting firm for the Company as well) for the fiscal year ending September 30, 2012.

3. To consider and vote upon a proposal that the Company take all actions necessary and appropriate, in the discretion of its Board of Directors, to pursue and effect the listing of its common stock on a national securities exchange (*e.g.*, The Nasdaq Stock Market, NYSE Amex LLC or such other exchange as is determined by the Company's Board of Directors) (the "**Listing**"), subject to the Company satisfying the initial listing standards of such exchange.

4. To consider and vote upon a proposal that in connection with effecting the Listing, the Company file an amendment to its certificate of incorporation to effect a reverse stock split of its common stock by a ratio of between 13-1 to 20-1, as determined by the Company's Board of Directors, such that upon filing of the Certificate of Amendment with the Secretary of State of the State of Delaware, for every thirteen (13) to twenty (20) shares of common stock of the Company outstanding immediately preceding the filing of such Certificate of Amendment, as determined by the Company's Board of Directors, one (1) share of common stock shall be outstanding.

5. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice.

The Board of Directors has fixed the close of business on **June 13, 2012** as the record date for the determination of stockholders entitled to notice of and to vote at the Annual Meeting and at any adjournment or postponement thereof. For ten days prior to the meeting, a complete list of stockholders entitled to vote at the meeting will be available for examination by any stockholder, for any purpose relating to the meeting, during ordinary business hours at the offices of Morrison & Foerster LLP, 1290 Avenue of the Americas, 39th Floor, New York, New York 10104.

Whether or not you expect to attend the Annual Meeting, please complete, sign and date the proxy and return it promptly, or vote by telephone or by Internet. If you plan to attend the Annual Meeting and wish to vote your shares personally, you may do so at any time before the proxy is voted.

All stockholders are cordially invited to attend the Annual Meeting.

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to Be Held on July 27, 2012

The Company's Annual Report and Proxy Statement are available at www.voteproxy.com, www.pinksheets.com and www.aljregionalholdings.com. You are encouraged to access and review all of the important information contained in the proxy materials before voting.

By Order of the Board of Directors

/s/ John Scheel
John Scheel
President, Chief Executive Officer
and Class I Director

Ashland, KY
June 27, 2012

PROXY STATEMENT
FOR ANNUAL MEETING OF STOCKHOLDERS
To Be Held on July 27, 2012

INFORMATION CONCERNING SOLICITATION AND VOTING

General

The Board of Directors (the "**Board of Directors**" or the "**Board**") of ALJ Regional Holdings, Inc., a Delaware corporation (the "**Company**"), is soliciting proxies for use at the Annual Meeting of Stockholders to be held on July 27, 2012 at 9:00 a.m. Eastern Time (the "**Annual Meeting**"), or at any adjournment or postponement thereof, for the purposes set forth in this Proxy Statement and in the accompanying Notice of Annual Meeting of Stockholders. The Annual Meeting will be held at the offices of Morrison & Foerster LLP, 1290 Avenue of the Americas, 39th Floor, New York, New York 10104. The Company intends to mail a Notice of Internet Availability of Proxy Materials (the "**Notice of Internet Availability**") on or about June 27, 2012 to all stockholders entitled to vote at the Annual Meeting.

Solicitation

The Company will bear the entire cost of solicitation of proxies, including preparation, assembly, printing and mailing of the Notice of Internet Availability, hosting the proxy materials on www.voteproxy.com, and preparation, assembly, printing and mailing this Proxy Statement, the Proxy Card, the Annual Report and any additional information furnished to stockholders pursuant to fulfillment requests. Copies of solicitation materials will be furnished to banks, brokerage houses, fiduciaries and custodians holding in their names shares of the Company's stock beneficially owned by others to forward to such beneficial owners. The Company may reimburse persons representing beneficial owners of the Company's stock for their costs of forwarding solicitation materials to such beneficial owners. Solicitation of proxies by mail may be supplemented by telephone or personal solicitation by directors, officers or other regular employees of the Company. No additional compensation will be paid to directors, officers or other regular employees for such services.

Voting Rights and Outstanding Shares

Only holders of record of shares of the Company's common stock at the close of business on June 13, 2012 (the official record date) will be entitled to notice of and to vote at the Annual Meeting and any adjournment thereof. At the close of business on June 13, 2012, the Company had outstanding and entitled to vote 57,246,598 shares of common stock.

Each holder of record of shares of the Company's common stock on the record date will be entitled to one vote for each share of the Company's common stock held by such holder on the record date on all matters to be voted upon at the Annual Meeting.

A quorum of stockholders is necessary to hold a valid meeting. A quorum will be present if at least a majority of the Company's outstanding shares entitled to vote are represented at the meeting, either in person or by proxy. All votes will be tabulated by the inspector of elections appointed for the meeting by the Company, who will tabulate affirmative and negative votes, abstentions and broker non-votes. Votes for and against, abstentions and broker non-votes will each be counted for determining the presence of a quorum.

Internet Delivery of Proxy Materials

Instead of mailing a printed copy of our proxy materials to each stockholder of record, we are furnishing proxy materials, including this Proxy Statement and our Annual Report for the fiscal year ended September 30, 2011, by providing access to such documents on the Internet. Most stockholders will not receive printed copies of the proxy materials unless they request them, in which case printed copies of the proxy materials will be provided at no charge.

Instead of mailing a printed copy of our proxy materials to each stockholder of record, a Notice of Internet Availability was mailed to such stockholders on or about June 27, 2012 that instructs them as to how they may access and review all of the proxy materials on the Internet. The Notice of Internet Availability also instructs stockholders as to how they may submit their proxy on the Internet, by telephone or by mail.

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to Be Held on July 27, 2012

Our Annual Report and Proxy Statement are available at www.voteproxy.com, www.pinksheets.com and www.aljregionalholdings.com. You are encouraged to access and review all of the important information contained in the proxy materials before voting.

How You Can Vote

Stockholders of Record: You are a stockholder of record if at the close of business on the record date your shares were registered directly in your name with American Stock Transfer & Trust Company, LLC, our transfer agent. If you are a stockholder of record, there are several ways for you to vote your shares.

• **By Mail**. If you received printed proxy materials, you may submit your vote by marking, dating, signing and mailing the enclosed proxy in the prepaid envelope. Giving a proxy will not affect your right to vote your shares if you attend the Annual Meeting and want to vote in person. The shares represented by the proxies received in response to this solicitation and not properly revoked will be voted at the Annual Meeting in accordance with the instructions therein.

• **By telephone or over the Internet**. You may vote your shares by telephone or via the Internet by following the instructions provided in the Notice. If you vote by telephone or via the Internet, you do not need to return a Proxy Card by mail. Telephone and Internet voting are available 24 hours a day. Votes submitted by telephone or through the Internet must be received by 11:59 p.m. Eastern Time on July 26, 2012.

• **In person at the Annual Meeting**. You may vote your shares in person at the Annual Meeting. Even if you plan to attend the Annual Meeting in person, we recommend that you also submit your Proxy Card or voting instructions or vote by telephone or via the Internet by the applicable deadline so that your vote will be counted if you later decide not to attend the meeting.

Beneficial Owners: Stockholders whose shares are held in a brokerage account, or by another nominee, are considered the beneficial owners of shares held in "street name." Notices for these stockholders are being forwarded to beneficial owners, together with a voting instruction card. Beneficial owners have the right to direct their broker, trustee or nominee as to how to vote and also are invited to attend the Annual Meeting. You should follow the instructions in the Notice of Internet Availability of Proxy Materials or voting instructions provided by your broker or nominee in order to instruct your broker or other nominee on how to vote your shares. The availability of telephone and Internet voting will depend on the voting process of the broker or nominee.

Since a beneficial owner is not the stockholder of record, he or she may not vote these shares in person at the Annual Meeting without a proxy from the broker, trustee or nominee that holds the shares, giving the beneficial owner the right to vote the shares at the meeting.

Broker Non-Votes

A broker non-vote occurs when a broker submits a proxy card with respect to shares of common stock held in street name but declines to vote on a particular matter because the broker has not received voting instructions from the beneficial owner. Under the rules that govern brokers who are voting with respect to shares held in street name, brokers have the discretion to vote such shares on certain routine matters, but not on non-routine matters. In the past, director elections were considered a routine matter and brokers had discretion to vote shares held in street name in director elections absent voting instructions from the beneficial owner. Due to recent regulatory changes, brokers no longer have discretion to vote shares held in street name in director elections without specific instructions

from the beneficial owner. **Thus, if you hold your shares in street name and you do not instruct your broker how to vote in the election of directors, on the proposal to pursue and effect the Listing (as defined below) or on the proposal to file an amendment to the Company's certificate of incorporation to effect a reverse stock split, no votes will be cast on your behalf for such matter.** Your broker will, however, continue to have discretion to vote any uninstructed shares on the ratification of the appointment of Mountjoy Chilton Medley LLP, formerly known as Mountjoy & Bressler, LLP ("**Mountjoy**"), as the independent registered public accounting firm for the Company's operating subsidiary KES Acquisition Company ("**KES**") (and, if the Company were to proceed with a Listing, on the ratification of the appointment of Mountjoy as the independent registered public accounting firm for the Company as well) for the fiscal year ending September 30, 2012.

Voting and Revocability of Proxies

All valid proxies received before the Annual Meeting will be exercised. All shares represented by a proxy will be voted, and where a proxy specifies a stockholder's choice with respect to any matter to be acted upon, the shares will be voted in accordance with that specification. If a stockholder returns a proxy but does not mark their voting preference, the individuals named as proxies will vote the shares **FOR** the election of Jess M. Ravich as the one (1) Class III director, **FOR** the ratification of the appointment of Mountjoy as the independent registered public accounting firm for KES (and, if the Company were to proceed with a Listing, the ratification of the appointment of Mountjoy as the independent registered public accounting firm for the Company as well) for the fiscal year ending September 30, 2012, **AGAINST** the taking of all actions necessary and appropriate to pursue and effect the Listing and **AGAINST** the reverse stock split of the Company's common stock. Proxy cards submitted by mail must be received no later than the Annual Meeting to be voted at the Annual Meeting.

Any person giving a proxy pursuant to this solicitation has the power to revoke it at any time before it is voted. It may be revoked by filing with the Company's counsel, located at Morrison & Foerster LLP, 755 Page Mill Road, Palo Alto, CA, 94304, Attention: Christopher M. Forrester, a written notice of revocation, or it may be revoked by a later-dated vote, by mail, by Internet or by telephone, or by attending the meeting and voting in person. Only a stockholder's latest proxy received by 11:59 p.m. Eastern Time on July 26, 2012 will be counted. Attendance at the meeting will not, by itself, revoke a proxy.

If a stockholder's shares are held in street name, they should follow the directions provided by their broker or other nominee regarding how to revoke their proxy.

IMPORTANT

Please mark, sign and date the proxy and return it at your earliest convenience, or vote by telephone or by Internet, so that, whether you intend to be present at the Annual Meeting or not, your shares can be voted. This will not limit your rights to attend or vote at the Annual Meeting.

PROPOSAL 1
ELECTION OF DIRECTOR

The Company's Bylaws provide that the number of directors constituting the Board of Directors is five (5). The Company's Bylaws further provide that the number of directors constituting the Board of Directors may be changed from time to time by resolution of the Board of Directors.

The members of the Board of Directors are classified into three (3) classes, with one class of directors elected at each Annual Meeting of stockholders to hold office for a three-year term and until successors of such class have been elected and qualified, or until their earlier resignation or removal. At the Annual Meeting: one (1) Class III director will be elected by the stockholders to serve until the 2015 Annual Meeting of Stockholders or until his successor is elected and duly qualified or until his earlier resignation or removal. Jess M. Ravich has been nominated by the Board of Directors for election as the Class III director. If the nominee is unable or unwilling to serve as a director, proxies may be voted for a substitute nominee designated by the present Board of Directors. The Board of Directors has no reason to believe that the nominee will be unable or unwilling to serve as a nominee or as a director if elected. Proxies received will be voted "FOR" the election of Jess M. Ravich as the one (1) Class III director unless otherwise directed.

Directors are elected by a plurality vote. The one (1) Class III nominee who receives the most votes cast in his favor will be elected to serve as the Class III director. If no contrary indication is made, proxies are to be voted for the election of Jess M. Ravich as the one (1) Class III director or, in the event such nominee is not a candidate or is unable to serve as a director at the time of the election (which is not currently expected), for any nominee who shall be designated by the Company's Board of Directors to fill such vacancy.

Information Regarding Directors

Biographical information concerning each of the directors and the Class III nominee for director as of the date of this Proxy Statement is set forth below.

Name	Age	Position	Year in Which Term Will Expire
Jess M. Ravich	54	Class III Director and nominee	2012
Robert Scott Fritz	55	Class I Director	2013
John Scheel	57	Chief Executive Officer, President and Class I Director	2013
Hal G. Byer	55	Class II Director	2014
Olimpio Lee Squitieri	54	Class II Director	2014

HAL G. BYER. Mr. Byer has served as a director of the Company since January 30, 2003. Mr. Byer joined Houlihan Lokey as a Senior Vice President in their Financial Sponsors Coverage Group in December 2009. From May 2001 to November 2009, Mr. Byer was a Senior Vice President of Libra Securities, LLC ("**Libra Securities**"), a broker-dealer registered with the Securities and Exchange Commission and a FINRA member. From 1995 to 2003, Mr. Byer was Chief Executive Officer of Byer Distributing Co., a snack food distribution company. From 2000 to 2003, Mr. Byer was also the Chief Operating Officer of eGreatcause.com, an internet start-up involved in fundraising for charitable and non-profit organizations that is no longer active.

ROBERT SCOTT FRITZ. Mr. Fritz has served as a director of the Company since January 30, 2003. Since May 2002, Mr. Fritz has served as the president of Robert Fritz and Sons Sales Company, a food broker and paper distributor that he owns in New Jersey. Mr. Fritz holds a B.S. in Business from Fairleigh Dickinson University.

JESS M. RAVICH. Mr. Ravich has served as a director of the Company since June 26, 2006 and the Chairman of the Board since August 31, 2006. Mr. Ravich joined Houlihan Lokey as Managing Director in December 2009. Prior to that, Mr. Ravich was Chairman and Chief Executive Officer of Libra Securities, a Los Angeles-based investment banking firm that focused on capital raising and financial advisory services for middle market corporate clients and the sales and trading of debt and equity securities for institutional investors. Prior to

founding Libra Securities in 1991, Mr. Ravich was an Executive Vice President at Jefferies & Co., Inc. and a Senior Vice President at Drexel Burnham Lambert. Mr. Ravich serves on the board of directors and compensation committee of Cherokee Inc. (Nasdaq GS: CHKE). Mr. Ravich has also served as chairman of the board of directors of Cherokee Inc. since January 2011. In addition to his professional responsibilities, Mr. Ravich has also served on the Undergraduate Executive Board of the Wharton School and the Board of Trustees of the Archer School for Girls. Mr. Ravich has both a B.S and M.S. from the Wharton School and a J.D. from Harvard University.

JOHN SCHEEL. Mr. Scheel has served as the President and Chief Executive Officer of the Company since August 31, 2006 and has served as a director of the Company since September 13, 2006. Mr. Scheel also currently serves as the Chief Operating Officer of Pinnacle Steel, LLC ("**Pinnacle**") and, pursuant to the Management Agreement between KES and Pinnacle, as plant manager of KES' steel mini-mill in Ashland, Kentucky (the "**Mill**"). Mr. Scheel has been plant manager of the Mill since January 2004 and has been Chief Operating Officer of Pinnacle since September 2002. Prior to joining Pinnacle, Mr. Scheel was Vice President of Operations for Birmingham Steel Management from July 2001 to September 2002. Mr. Scheel holds both B.S. and M.S. degrees in Metallurgical Engineering from Purdue University and a Master of Business Administration in Finance and International Business from Xavier University.

OLIMPIO LEE SQUITIERI. Mr. Squitieri has served as a director of the Company since May 28, 2008. Since January 2001, Mr. Squitieri has served as a partner at Squitieri & Fearon, LLP. From 1988 through January 2001, Mr. Squitieri was a partner at the firm formerly known as Abbey, Gardy & Squitieri, LLP. Since December 2006, Mr. Squitieri has served as a director and vice president of Sixty Sutton Corp. Mr. Squitieri also serves as a director of SCAN New York, a non-profit organization. Mr. Squitieri has a B.A. from Rutgers University and a J.D. from New York Law School.

Board Committees

The Board does not have a separate audit, nominating, corporate governance or compensation committee. The entire Board performs the functions that could be delegated to such committees, including, without limitation, reviewing audits and financial reports, determining executive compensation and selecting director nominees.

Board Meetings

During the fiscal year ended September 30, 2011, the Board met five times and took action by written consent on one occasion. During the fiscal year ended September 30, 2011, all incumbent directors attended at least 75% of the aggregate number of meetings of the Board. The Board encourages the directors to attend the annual meetings of stockholders.

Audit Committee Financial Expert

The Board has determined that Mr. Ravich satisfies the definition of an "audit committee financial expert" under SEC rules and regulations. This designation does not impose any duties, obligations or liabilities on Mr. Ravich that are greater than those generally imposed on him as a member of the Board, and his designation as an audit committee financial expert pursuant to this SEC requirement does not affect the duties, obligations or liability of any other member of the Board.

Director Nominations

The Company's Board of Directors evaluates director nominees for each election of directors.

In fulfilling its responsibilities, the Board of Directors considers the following factors:

- the appropriate size of the Board of Directors;
- the needs of the Company with respect to the particular talents and experience of its directors;

- the knowledge, skills and experience of nominees, including experience in business, finance, administration or public service, in light of prevailing business conditions and the knowledge, skills and experience already possessed by other members of the Board of Directors;
- experience with accounting rules and practices;
- applicable regulatory and securities exchange/association requirements; and
- a balance between the benefit of continuity and the desire for a fresh perspective provided by new members.

The Board of Directors' goal is to assemble a group of directors that brings to the Company a variety of perspectives and skills derived from high quality business and professional experience. In doing so, the Board of Directors also considers candidates with appropriate non-business backgrounds.

Other than the foregoing factors, there are no stated minimum criteria for director nominees. However, the Board of Directors may also consider such other factors as it may deem are in the best interests of the Company and its stockholders. The Board of Directors believes that it is preferable that at least one member of the Board of Directors should meet the criteria for an "audit committee financial expert" as defined by SEC rules. The Board of Directors also believes it appropriate for the Company's Chief Executive Officer to participate as a member of the Board of Directors.

The Board of Directors identifies nominees by first evaluating the willingness of the current members of the Board of Directors to continue in service. Current members of the Board of Directors with skills and experience that are relevant to the Company's business and who are willing to continue in service are considered for re-nomination, balancing the value of continuity of service by existing members of the Board of Directors with that of obtaining a new perspective. If any member of the Board of Directors up for re-election at an upcoming annual meeting of stockholders does not wish to continue in service, the Board of Directors identifies the desired skills and experience of a new nominee in light of the criteria above. Current members of the Board of Directors will be polled for suggestions as to individuals meeting the criteria of the Board of Directors. Research may also be performed to identify qualified individuals. If the Board of Directors believes that it requires additional candidates for nomination, the Board of Directors may explore alternative sources for identifying additional candidates. This may include engaging, as appropriate, a third party search firm to assist in identifying qualified candidates.

The Board will evaluate any recommendation for a director nominee proposed by a stockholder who gives timely written notice to the Secretary of the Company. In order to be timely, the notice must be delivered by a nationally recognized courier service or mailed by first class United States mail, postage or delivery charges prepaid, and received by the Company at 244 Madison Avenue, PMB #358, New York, New York 10016 not earlier than fifty (50) days or more than eighty (80) days prior to the scheduled date of the annual meeting, provided, however, that if fewer than sixty (60) days' notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so delivered or mailed and received not later than the close of business on the tenth (10th) day following the earlier of (a) the day on which such notice of the date of the meeting was mailed or (b) the day on which such public disclosure was made. Additionally, the Company's Bylaws require that all stockholder notices for director nominations contain the following information:

- As to each person whom the stockholder proposes to nominate for election or reelection as a director:
    - the name, age, business address and residence address of the person;
    - the principal occupation or employment of the person;
    - the class, series and number of shares of capital stock of the Company that are owned beneficially by the person on the date of such stockholder's notice;
    - a statement as to the person's citizenship; and

- any other information relating to the person that is required to be disclosed in solicitations for proxies for election of directors pursuant to Section 14 of the Securities Exchange Act of 1934, including, without limitation, such person's written consent to being named in the Proxy Statement as a nominee and to serving as a director if elected.

- As to the stockholder giving the notice:

  - the name and address, as such information appears on the Company's books, of such stockholder and any other stockholders known by such stockholder to be supporting such nominee(s);

  - the class, series and number of shares of capital stock of the Company that are owned beneficially by the stockholder and each other stockholder known by such stockholder to be supporting such nominee(s) on the date of such stockholder's notice; and

  - a representation that the stockholder is a holder of record of stock of the Company entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the notice.

- A description of all arrangements or understandings between the stockholder and each nominee and other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the stockholder.

The Board will evaluate recommendations for director nominees submitted by directors, management or qualifying stockholders in the same manner, using the criteria stated above.

All directors and director nominees will submit a completed form of directors' and officers' questionnaire as part of the nominating process. The process may also include interviews and additional background and reference checks for non-incumbent nominees, at the discretion of the Board.

Communications with Directors

If a stockholder wishes to communicate with the Board, they may send their communication in writing to: Secretary, ALJ Regional Holdings, Inc., 244 Madison Avenue, PMB #358, New York, New York 10016. Such stockholder must include their name and address in the written communication and indicate whether they are a stockholder of the Company. The Secretary will review any communication received from a stockholder, and all material communications from stockholders will be forwarded to the appropriate director or directors or the Board based on the subject matter.

Director Compensation

The Board approved a director compensation program in 2008 providing for an annual payment on the date of the Company's annual stockholders meeting of $12,500 in cash and $12,500 in restricted common stock at the fair market value. On July 18, 2011, pursuant to the program, each member of the Board received a restricted stock grant of 21,186 shares of common stock at the fair market value of $0.59 per share on that date. The restricted stock vests monthly over a twelve-month period. Vesting is contingent upon continued service on the Board. Directors may also be reimbursed for any out-of-pocket expenses they incur in the performance of their responsibilities.

Required Vote

The one (1) Class III nominee receiving the highest number of affirmative votes of the shares present and voting at the Annual Meeting in person or by proxy will be elected as the Class III director. Each proxy cannot be voted for a greater number of persons than one.

THE COMPANY'S BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ELECTION OF JESS M. RAVICH AS THE ONE (1) CLASS III DIRECTOR.

PROPOSAL 2
RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board has appointed Mountjoy as the independent registered public accounting firm for KES (and, if the Company were to proceed with a Listing, as the independent registered public accounting firm for the Company as well) for the fiscal year ending September 30, 2012 and has further directed that such appointment be submitted for ratification by the stockholders at the Annual Meeting.

Stockholder ratification of the appointment of Mountjoy as the independent registered public accounting firm is not required by the Company's Bylaws or otherwise. However, the Board is submitting the appointment of Mountjoy to the stockholders for ratification as a matter of good corporate governance. If the stockholders fail to ratify the appointment, the Board will reconsider whether or not to retain Mountjoy or engage a different firm. Even if the appointment is ratified, the Board, in its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year if they determine that such a change would be in the best interests of the Company and its stockholders.

As part of its duties, the Board considers whether the provision of services, other than audit services, during the fiscal year ended September 30, 2011 by Mountjoy, KES' independent auditor for that period, is compatible with maintaining the auditor's independence. The following table sets forth the aggregate fees billed to the Company for the fiscal years ended September 30, 2011 and 2010 by Mountjoy. During the fiscal years ended September 30, 2011 and 2010, Mountjoy's audit was limited to KES. The Company's consolidated financial statements were prepared and certified by management and not audited by Mountjoy.

	2011	2010
Audit Fees (1)	$ 55,544	$ 54,126
Audit-Related Fees (2)	$ 5,000	$ 5,000
Tax Fees (3)	$ 22,500	$ 22,500
All Other Fees	$ 0	$ 0

(1) Consist of fees billed for professional services rendered for the audit of KES' annual financial statements and review of the interim financial statements included in quarterly reports and services that are normally provided by the Company's independent registered public accounting firm in connection with statutory and regulatory filings or engagements.
(2) Audit-Related Fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's consolidated financial statements and are not reported under "Audit Fees."
(3) Tax Fees consist of fees billed for professional services rendered for tax compliance, tax advice and tax planning. The Company's taxes are completed by RSM McGladery.

Required Vote

The affirmative vote of a majority of the votes cast at the meeting at which a quorum is present, either in person or by proxy, is required to approve this proposal.

THE COMPANY'S BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF MOUNTJOY AS THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR KES (AND, IF THE COMPANY WERE TO PROCEED WITH A LISTING, THE RATIFICATION OF THE APPOINTMENT OF MOUNTJOY AS THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE COMPANY AS WELL) FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2012

PROPOSAL 3
STOCKHOLDER PROPOSAL REGARDING LISTING ON NATIONAL SECURITIES EXCHANGE

The following stockholder proposal and stockholder's supporting statement has been submitted to the Company for action at the Annual Meeting by Joseph Corso, Jr., 167 Zock Road, Cuddlebackville, NY 12729, who owns 12,011,000 shares of the Company's common stock. The stockholder proposal and supporting statement are presented below as submitted by the stockholder, are quoted verbatim and are in italics. The Company disclaims all responsibility for the content of the proposal and the supporting statement.

Stockholder Proposal

*That the Company take all actions necessary and appropriate, in the discretion of its Board of Directors, to pursue and effect the listing of its common stock on a national securities exchange (e.g., The Nasdaq Stock Market, NYSE Amex LLC or such other exchange as is determined by the Company's Board of Directors) (the "**Listing**"), subject to the Company satisfying the initial listing standards of such exchange.*

Stockholder's Supporting Statement

The Company ceased filing reports with the Securities and Exchange Commission in approximately 2006 and has traded in the "pink sheets". The listing of the Company's common stock on a national securities exchange will make our common stock more attractive to a broader range of investors and enhance the trading market and liquidity of our common stock. I believe that the listing of our common stock on a national securities exchange is in the Company's and our stockholders' best interests. Any incremental costs associated with being a public company should be mitigated by the provisions of the JOBS Act that are designed to make it easier for companies with less than $1 billion of revenue to become public companies. Additionally, the increased visibility of the common stock on a national securities exchange will enhance value for all stockholders.

Board of Directors' Statement in Opposition to the Proposal

The Company's Board of Directors recommends a vote "AGAINST" this stockholder proposal. Unless otherwise specified, proxies will be voted "AGAINST" the proposal. The Board has considered this proposal and believes that it is not in the best interests of the Company or its stockholders.

A stockholder has suggested that the Company pursue and effect a Listing in order to improve the visibility and liquidity of the Company's common stock. The Board of Directors opposes this proposal because it believes that a Listing would impose substantial costs, including ongoing compliance costs, that outweigh any potential benefits of a Listing.

The Company's common stock currently trades below the price that would satisfy the initial listing standards of certain national securities exchanges. As contemplated under the other stockholder proposal, Proposal 4, the Company would need to effect a reverse stock split in order to increase the per share trading price sufficient to satisfy the initial listing standards of such exchanges. However, the Board believes that a reverse stock split could have a negative effect on the liquidity and trading price of the Company's common stock. As discussed in more detail under the heading "Board of Directors' Statement in Opposition to the Proposal" under Proposal 4 below, stockholders will own a fewer number of shares than they currently own following a reverse stock split, which may result in some stockholders owning "odd lots" of less than 100 shares of the Company's common stock, which may be more difficult and costly to sell. A reverse stock split also may not increase the per share price of the Company's common stock in proportion to the reduction in the number of shares of the Company's common stock outstanding or result in a permanent increase in the per share price. In fact, the stock price of some companies that have effected reverse stock splits has subsequently declined back to pre-reverse stock split levels.

Even if the Company were able to meet applicable listing requirements by a reverse stock split, the Company would be subject to significant costs in connection with a Listing. In order to satisfy the initial listing requirements of a national securities exchange, the Company would have to register its common stock with the U.S. Securities and Exchange Commission (the "**SEC**") by filing a registration statement and becoming a reporting company under the Securities Exchange Act of 1934 (the "**Exchange Act**"). The Company may incur significant

accounting and legal fees in preparing a registration statement, and significant SEC filing fees, financial printer expenses, transfer agent fees and exchange fees in effecting the Listing. Further, prior to the fiscal year ending September 30, 2012, Mountjoy's audit has been limited to KES. The Company's consolidated financial statements were prepared and certified by management and not audited by Mountjoy. In connection with filing a registration statement, the Company would need to obtain an audit at the parent level for its prior two fiscal years (*i.e.*, the fiscal years ended September 30, 2011 and 2010), which may result in substantial costs.

Once a Listing is completed and the Company is operating as an Exchange Act reporting company and trading on a national securities exchange, the Company will continue to incur increased costs as it complies with the rules and regulations promulgated by both the SEC and the national securities exchange. For example, the Sarbanes-Oxley Act of 2002 would impose costly requirements, including management reporting on the adequacy of internal control over financial reporting. Exchange Act reporting companies are also required to file current and periodic reports, which will require the continued involvement of legal counsel. Although the Company currently provides annual and quarterly reports, it is not subject to many Exchange Act requirements relating to such disclosures, and becoming compliant with such requirements will be costly. Also, there will be continuing audit fees for annual audits and review of interim financial statements.

For the foregoing reasons, the Board of Directors believes that this stockholder proposal is not in the best interests of the Company or its stockholders and recommends a vote "**AGAINST**" this proposal.

Vote Required

The affirmative vote of a majority of the votes cast at the meeting at which a quorum is present, either in person or by proxy, is required to approve this proposal. **In counting votes, abstentions and broker non-votes will not be counted and will not affect the outcome of the vote. This proposal is advisory in nature and not binding on the Board of Directors or the Company.**

THE COMPANY'S BOARD OF DIRECTORS RECOMMENDS A VOTE "AGAINST" THE PROPOSAL THAT THE COMPANY TAKE ALL ACTIONS NECESSARY AND APPROPRIATE, IN THE DISCRETION OF ITS BOARD OF DIRECTORS, TO PURSUE AND EFFECT THE LISTING OF ITS COMMON STOCK ON A NATIONAL SECURITIES EXCHANGE (*E.G.*, THE NASDAQ STOCK MARKET, NYSE AMEX LLC OR SUCH OTHER EXCHANGE AS IS DETERMINED BY THE COMPANY'S BOARD OF DIRECTORS), SUBJECT TO THE COMPANY SATISFYING THE INITIAL LISTING STANDARDS OF SUCH EXCHANGE.

PROPOSAL 4
STOCKHOLDER PROPOSAL REGARDING REVERSE STOCK SPLIT

The following stockholder proposal and stockholder's supporting statement has been submitted to the Company for action at the Annual Meeting by Joseph Corso, Jr., 167 Zock Road, Cuddlebackville, NY 12729, who owns 12,011,000 shares of the Company's common stock. The stockholder proposal and supporting statement are presented below as submitted by the stockholder, are quoted verbatim and are in italics. The Company disclaims all responsibility for the content of the proposal and the supporting statement.

Stockholder Proposal

That in connection with effecting the Listing, the Company file an amendment to its certificate of incorporation to effect a reverse stock split of its common stock by a ratio of between 13-1 to 20-1, as determined by the Company's Board of Directors, such that upon filing of the Certificate of Amendment with the Secretary of State of the State of Delaware, for every thirteen (13) to twenty (20) shares of common stock of the Company outstanding immediately preceding the filing of such Certificate of Amendment, as determined by the Company's Board of Directors, one (1) share of common stock shall be outstanding.

Stockholder's Supporting Statement

I am submitting this proposal regarding a reverse stock split to the stockholders for approval with the primary intent of increasing the per share market price of our common stock to enhance our ability to meet the initial listing requirements of a national securities exchange, which I believe will make our common stock more attractive to a broader range of investors and enhance the trading market and liquidity of our common stock. As discussed below, the reverse stock split should have the effect of increasing the market price of our common stock in order to satisfy the initial listing requirements of a national securities exchange. Accordingly, for these and other reasons discussed below, I believe that effecting the reverse stock split is the Company's and its stockholders' best interests.

In addition, I believe the reverse stock split will make our common stock more attractive to a broader range of investors, as I believe that the current market price of our common stock may prevent certain institutional investors, professional investors and other members of the investing public from purchasing our stock. Many brokerage houses and institutional investors have internal policies and practices that either prohibit them from investing in low-priced stocks or may prohibit individual brokers from recommending low-priced stocks to their customers. Furthermore, some of those policies and practices may function to make the processing of trades in low-priced stocks economically unattractive to brokers. Moreover, because brokers' commissions on low-priced stocks generally represent a higher percentage of the stock price than commissions on higher-priced stocks, the current average price per share of common stock can result in individual stockholders paying transaction costs representing a higher percentage of their total share value than would be the case if the share price were higher. I believe that the reverse stock split will make our common stock a more attractive and cost effective investment for many investors, which we in turn believe would enhance the liquidity of the holders of our common stock.

Board of Directors' Statement in Opposition to the Proposal

The Company's Board of Directors recommends a vote "AGAINST" this stockholder proposal. Unless otherwise specified, proxies will be voted "AGAINST" the proposal. The Board has considered this proposal and believes that it is not in the best interests of the Company or its stockholders.

The Board of Directors opposes this stockholder proposal because it believes that any increase in the trading price of the Company's common stock that results from a decrease in the number of outstanding shares may be negated by a corresponding decrease in liquidity and the negative perception of reverse stock splits held by some investors, analysts and other stock market participants.

The Company's common stock currently trades below the price that would satisfy the initial listing standards of certain national securities exchanges in connection with the Listing contemplated under Proposal 3. This stockholder proposal would effect a reverse stock split in order to reduce the number of outstanding shares of

the Company's capital stock, thereby increasing the per share trading price sufficient to meet the initial listing standards of such exchanges.

However, any increase in the trading price of the Company's common stock as a result of a reverse stock split may be negated by the adverse effect on liquidity that might be caused by a reduced number of shares issued and outstanding after the reverse stock split. If a reverse stock split is effected, the Company's stockholders will own a fewer number of shares than they currently own (a number equal to the number of shares owned immediately prior to the reverse stock split divided by the applicable number within the approved range). If approved and implemented, the reverse stock split may result in some stockholders owning "odd lots" of less than 100 shares of the Company's common stock. Odd lot shares may be more difficult to sell, and brokerage commissions and other costs of transactions in odd lots are generally somewhat higher than the costs of transactions in "round lots" of even multiples of 100 shares.

A reverse stock split may not increase the per share price of the Company's common stock in proportion to the reduction in the number of shares of the Company's common stock outstanding or result in a permanent increase in the per share price (which depends on many factors, including the Company's performance, prospects and other factors that may be unrelated to the number of shares outstanding). The stock price of some companies that have effected reverse stock splits has subsequently declined back to pre-reverse stock split levels. Further, other factors such as the Company's financial results, market conditions, the state of the Company's industry and the market perception of the Company's business may adversely effect the market price of the Company's common stock. As a result, there can be no assurance that the price of the Company's common stock would be maintained at the per share price in effect immediately following the effective time of the reverse stock split. Further, even if the Company's stock price satisfies an exchange's minimum bid price listing requirements, the Company may fail to meet other listing requirements.

For the foregoing reasons, the Board of Directors believes that this stockholder proposal is not in the best interests of the Company or its stockholders and recommends a vote "**AGAINST**" this proposal.

Vote Required

The affirmative vote of a majority of the shares of common stock of the Company outstanding and entitled to vote at the Annual Meeting, either in person or by proxy, is required to approve this proposal. **In counting votes, abstentions and broker non-votes will be treated as votes against this proposal. This proposal is advisory in nature and not binding on the Board of Directors or the Company.**

THE COMPANY'S BOARD OF DIRECTORS RECOMMENDS A VOTE "AGAINST" THE PROPOSAL THAT IN CONNECTION WITH EFFECTING THE LISTING, THE COMPANY FILE AN AMENDMENT TO ITS CERTIFICATE OF INCORPORATION TO EFFECT A REVERSE STOCK SPLIT OF ITS COMMON STOCK BY A RATIO OF BETWEEN 13-1 TO 20-1, AS DETERMINED BY THE COMPANY'S BOARD OF DIRECTORS, SUCH THAT UPON FILING OF THE CERTIFICATE OF AMENDMENT WITH THE SECRETARY OF STATE OF THE STATE OF DELAWARE, FOR EVERY THIRTEEN (13) TO TWENTY (20) SHARES OF COMMON STOCK OF THE COMPANY OUTSTANDING IMMEDIATELY PRECEDING THE FILING OF SUCH CERTIFICATE OF AMENDMENT, AS DETERMINED BY THE COMPANY'S BOARD OF DIRECTORS, ONE (1) SHARE OF COMMON STOCK SHALL BE OUTSTANDING.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of June 13, 2012, the beneficial ownership of common stock with respect to (i) each person who was known by the Company to own beneficially more than 5% of the outstanding shares of common stock, (ii) each director, (iii) the Company's chief executive officer, and (iv) all directors and executive officers as a group. As of June 13, 2012, the Company had 57,246,598 shares of common stock issued and outstanding, which was the only class of voting securities authorized or outstanding.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class
Executive Officers and Directors:		
Robert Scott Fritz, Director 711 Sycamore Avenue Tinton Falls, NJ 07701	754,011	1.32%
Hal G. Byer, Director c/o Houlihan Lokey 10250 Constellation Blvd., 5th Floor Los Angeles, CA 90067	516,028	*%
Jess M. Ravich, Chairman of the Board 149 S. Barrington Ave., #828 Los Angeles, CA 90049	13,154,569(2)	22.98%
John Scheel, Chief Executive Officer, President and Director c/o KES Acquisition Company P.O. Box 2119 Ashland, Kentucky 41105	738,460	1.29%
Olimpio Lee Squitieri, Director c/o Squitieri & Fearon, LLP 32 East 57th Street, 12th Floor New York, New York 10022	1,505,510(3)	2.63%
T. Robert Christ, Chief Financial Officer P.O. Box 99418 San Diego, CA 92169	200,000(4)	*%
All current directors and officers as a group	16,868,578(5)	29.47%
5% Stockholders:		
Joseph Corso, Jr. 167 Zock Road Cuddlebackville, NY 12729	12,011,000(6)	20.98%
Palermo Ravich Foundation 5700 Wilshire Blvd., Suite 2000 Los Angeles, CA 90036	4,044,834	7.07%

* Less than 1%

(1) Consistent with the regulations of the U.S. Securities and Exchange Commission, shares of common stock issuable upon exercise of derivative securities by their terms exercisable within 60 days of June 13, 2012 are deemed outstanding for the purpose of computing the percentage ownership of the person holding such options but are not deemed outstanding for computing the percentage ownership of any other person. Unless otherwise indicated below, to the knowledge of the Company, the persons and entities named in this table have sole voting and sole investment power with respect to all shares beneficially owned, subject to community property laws where applicable.

(2) Includes 192,968 shares held by Mr. Ravich, 10,961,601 shares held by the Ravich Revocable Trust of 1989 and 2,000,000 shares issuable upon exercise of currently vested options held by Mr. Ravich.

(3) Includes 200,000 shares held in a custodial account for the benefit of Mr. Squitieri's daughter over which he has dispositive power. Mr. Squitieri disclaims beneficial ownership for these shares.

(4) Includes 200,000 shares issuable upon exercise of currently vested options.

(5) Includes 2,200,000 shares issuable upon exercise of currently vested options.

(6) Based on information provided by Mr. Corso.

Certain Relationships and Related Transactions

Since the acquisition of the Mill, the Mill has been operating under a Management Services Agreement (the "**Pinnacle Agreement**") with Pinnacle Steel, LLC ("**Pinnacle**"). Pinnacle is entitled to a monthly management fee and a management incentive fee as provided in the Pinnacle Agreement. John Scheel, a director of the Company, is a principal of and receives compensation from Pinnacle.

Jess M. Ravich, who is the Chairman of the Board and a director of KES, holds: (1) subordinated term loans ("**Subordinated Loans**") under the Subordinated Financing Agreement dated as of July 20, 2009 by and among KES, the lenders a party thereto and Ableco Finance LLC as collateral and administrative agent, (2) Series B Common Stock of KES, (3) either directly or through a related trust, 11,154,569 shares of the Company's common stock, (4) 2,000,000 shares of the Company's Common Stock issuable upon exercise of currently vested options and (5) 1,187 shares of Series A Preferred Stock of KES. Additionally, Libra Securities, an affiliate of Mr. Ravich, holds Subordinated Loans and 712 shares of Series A Preferred Stock of KES.

Robert Scott Fritz and Hal G. Byer, both directors of the Company, are holders of Subordinated Loans and shares of Series B common stock of KES.

On February 15, 2011, the Company repurchased 25,390, 33,854 and 10,156 shares of its Series A Preferred Stock (the "**ALJ Repurchased Stock**") from Messrs. Fritz, Byer, and Jon Diamond, a former director of the Company, respectively, plus accrued dividends thereon for aggregate consideration of $277,600 (the "**ALJ Stock Repurchase**"). The ALJ Repurchased Stock had a face value of approximately $277,600 plus accrued dividends of approximately $147,485. The ALJ Stock Repurchase was effected pursuant to stock repurchase agreements between the Company and the holders of the ALJ Repurchased Stock dated February 15, 2011.

On June 16, 2011, the Company repurchased the remaining 305,156 shares of its Series A Preferred Stock, including all accrued but unpaid dividends thereon (the "**Ravich Repurchased Stock**"), from a trust related to Mr. Ravich, for aggregate consideration of 3,774,632 shares of the Company's common stock (the "**Ravich Stock Repurchase**"). The aggregate liquidation value of the Ravich Repurchased Stock was approximately $1,887,316. The Ravich Stock Repurchase took place at an implied price of $0.50 per share. The Ravich Stock Repurchase was effected pursuant to a Series A Preferred Stock Exchange Agreement between the Company and the holder of the Ravich Repurchased Stock dated June 16, 2011. Following the Ravich Stock Repurchase, there are no shares of Series A Preferred Stock outstanding.

In connection with the refinance of KES' credit facility in September 2011, KES entered into a Fee and Reimbursement Agreement dated as of September 30, 2011 by and among KES, Mr. Ravich, a trust related to Mr. Ravich, and another guarantor. Mr. Ravich, the related trust and the other guarantor collectively guaranteed KES' term loan under the credit facility. KES agreed to pay the related trust a one-time fee of $100,000 at the closing on September 30, 2011, and $250,000 upon and in the event that Mr. Ravich shall cease to be a member of the Board other than by reason of his voluntary resignation therefrom. In connection with the prior refinance of KES' credit facility in May 2010, KES entered into a Fee and Reimbursement Agreement dated as of May 28, 2010 by and among KES, Mr. Ravich and the related trust. Mr. Ravich and the related trust collectively guaranteed KES' term loan under the credit facility. KES agreed to pay Mr. Ravich and the related trust a one-time fee of $100,000 at the closing on May 28, 2010, and an additional $50,000 on the first anniversary of the closing.

On September 30, 2011, KES repurchased $9.1 million of aggregate principal of the Subordinated Loans plus $2.9 million in accrued interest thereon from the holders thereof. The Subordinated Loans repurchased included principal of $49,084 repurchased from Mr. Fritz, principal of $87,587 repurchased from Mr. Byer, principal of $1.8 million repurchased from a trust related to Mr. Ravich, principal of $2.1 million repurchased from Libra Securities and principal of $140,836 repurchased from the Company.

The terms of all of the foregoing transactions were approved by the independent members of the Board.

STOCKHOLDER PROPOSALS

Under the Company's Bylaws, a stockholder who wishes to make a proposal at the 2013 annual meeting of stockholders must deliver notice to the Company by a nationally recognized courier service or first class United States mail, postage or delivery charges prepaid, and such notice must be received at the principal executive offices of the Company addressed to the attention of the Secretary of the Company not earlier than ninety (90) days nor more than one hundred twenty (120) days in advance of the date that this Proxy Statement is released to the stockholders in connection with this year's annual meeting of stockholders; provided, however, that in the event that no annual meeting is held this year or the date of the 2013 annual meeting has been changed by more than thirty (30) days from the date of this year's annual meeting as contemplated at the time of this Proxy Statement, notice by the stockholder must be received by the Secretary of the Company not later than the close of business on the later of (a) the ninetieth (90th) day prior to such annual meeting and (b) the seventh (7th) day following the day on which public announcement of the date of such meeting is first made. A stockholder's notice to the Secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting (i) a brief description of the business desired to be brought before the annual meeting, the text of the proposal or business (including the text of any resolutions proposed for consideration and in the event that such business includes a proposal to amend the bylaws of the Company, the language of the proposed amendment), and the reasons for conducting such business at the annual meeting, (ii) the name and record address of the stockholder proposing such business and the beneficial owner, if any, on whose behalf the proposal is made, (iii) the class, series and number of shares of the Company that are owned beneficially and of record by the stockholder and such beneficial owner, (iv) any material interest of the stockholder in such business, and (v) any other information that is required to be provided by the stockholder pursuant to Section 14 of the Securities Exchange Act of 1934 and the rules and regulations promulgated thereunder in such stockholder's capacity as a proponent of a stockholder proposal.

ANNUAL REPORT

The Company's Annual Report for the fiscal year ended September 30, 2011 is available at www.voteproxy.com, www.pinksheets.com and www.aljregionalholdings.com. The Company's Annual Report does not constitute, and should not be considered, a part of this Proxy.

OTHER MATTERS

If any other matters are properly brought before the meeting, it is the intention of the persons named in the proxy to vote on such matters in accordance with their best judgment.

All stockholders are urged to complete, sign, date and return the Proxy Card, or vote by telephone or by Internet.

By Order of the Board of Directors

/s/ John Scheel
John Scheel
President, Chief Executive Officer
and Class I Director

June 27, 2012

ALJ REGIONAL HOLDINGS, INC.

244 Madison Avenue
PMB #358
New York, New York 10016

(212) 883-0083

Quarterly Report for the
Period Ended
December 31, 2011

ALJ REGIONAL HOLDINGS, INC.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Statements in this report (the "Report") regarding financial and operating performance and other statements that are not historical facts, including, among others, statements regarding the Company's ability to fund its operations, service indebtedness, improve operating efficiencies, benefit from financial and corporate restructuring, offset future income against net operating loss carryovers ("NOLs") and use its rights plan to preserve NOLs, constitute forward-looking statements. In general, you can identify forward-looking statements by the presence of words such as "anticipate," "believe," "estimate," "expect, "intend," "may", "plan," "predict," "project," "will," and similar expressions.

Forward-looking statements are based on reasonable expectations and are subject to risks and uncertainties. Actual results will differ, perhaps materially, from those set forth or implied by such forward-looking statements due to a variety of factors, including, among others:

- Economic or other cyclical changes in market supply and demand for steel;
- Monetary or trade policy affecting the price, import or export of steel;
- Price competition resulting from excess steelmaking capacity in the market, imports of low priced steel from overseas or consolidation of steelmaking operations;
- Changes in the availability or cost of raw materials, supplies and energy, including steel scrap, electricity, natural gas or other utilities;
- Unanticipated equipment failures and plant outages or the occurrences of extraordinary operating expenses;
- Margin compression resulting from the inability to pass expense increases or surcharges to customers;
- Loss of business from one or more major customers or end-users;
- Labor unrest, work stoppages or strikes involving the steel industry in general and in particular the workforce of the Company or those of its important suppliers or customers;
- Adverse weather conditions affecting the Company's operations or the operations of its important suppliers or customers;
- The impact of, or changes in, environmental laws or in the application of other legal or regulatory requirements upon the Company's production processes or costs of production or upon those of its suppliers or customers, including actions by government agencies, such as the U.S. Environmental Protection Agency or the Kentucky Department for Environmental Protection;
- Private or governmental liability claims or litigation, or the impact of any adverse outcome of any litigation on the adequacy of the Company's reserves, the availability or adequacy of its insurance coverage, its financial well-being or its business and assets;
- Changes in interest rates or other borrowing costs, or the effect of existing loan covenants or restrictions upon the cost or availability of credit to fund operations or take advantage of other business opportunities;
- Changes in the Company's business strategies or development plans which it may adopt or which may be brought about in response to actions by its suppliers or customers, and any difficulty or inability to successfully consummate or implement as planned any planned or potential projects, acquisitions, joint ventures or strategic alliances; and
- Changes in tax laws or regulations regarding the use and/or preservation of NOLs.

The Company is also subject to general business risks, including its success in continuing to settle the Company's outstanding obligations from its prior business activities, results of tax audits, the Company's ability to retain and attract key employees, acts of war or global terrorism, and unexpected natural disasters.

Any forward-looking statements included in this Report are made as of the date hereof and based on information available to the Company as of the date hereof. Subject to applicable law, the Company assumes no obligation to update any forward-looking statements.

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ITEM 1. EXACT NAME OF THE ISSUER AND THE ADDRESS OF ITS PRINCIPAL EXECUTIVE OFFICES

ALJ Regional Holdings, Inc. (“ALJ” or the “Company”) has its principal offices at:

244 Madison Avenue, PMB 358
New York, NY 10016
Phone: (212) 883-0083
Fax: (606) 929-1261

References to the “Company,” “we,” “us” and “our” are to the consolidated operations of ALJ, including the operations of its subsidiaries, except to the extent the context is intended to refer only to ALJ. The Company was originally incorporated in the State of Delaware under the name Nuparent, Inc. on June 22, 1999. The Company’s name was changed to YouthStream Media Networks, Inc. on June 24, 1999 and that name was used through October 23, 2006. The Company’s name was changed to ALJ Regional Holdings, Inc. on October 23, 2006.

The Company’s investor relations contact is Jess Ravich, the Chairman of the Board. Mr. Ravich can be reached at (310) 789-5741.

The Company’s transfer agent is American Stock Transfer & Trust Company, LLC whose address and phone number are:

American Stock Transfer & Trust Company, LLC
Operations Center
6201 15th Avenue
Brooklyn, NY 11219
(718) 921-8293

ITEM 2. SHARES OUTSTANDING

The Company has only two classes of securities; common stock and preferred stock, the details of which are disclosed in the table below.

	Common Stock Period End Date			Preferred Stock Period End Date		
	December 31, 2011	September 30, 2011	September 30, 2010	December 31, 2011	September 30, 2011	September 30, 2010
Number of Shares Authorized	100,000,000	100,000,000	100,000,000	5,000,000	5,000,000	5,000,000
Number of Shares Outstanding	56,934,040	56,934,040	49,729,574	0	0	374,556

Of the 5,000,000 shares of preferred stock authorized, 1,000,000 shares have been designated as Series A Preferred Stock, none of which are currently issued and outstanding and 550,000 shares have been designated as Series B Preferred Stock, none of which are currently issued and outstanding.

ITEM 3. INTERIM FINANCIAL STATEMENTS

ALJ REGIONAL HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	December 31, 2011	September 30, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,272,037	$ 1,282,228
Accounts receivable, less allowance for doubtful accounts of $611,512 at December 31, 2011 and $703,532 at September 30, 2011	11,890,546	14,522,393
Inventories	31,323,335	28,351,131
Prepaid expenses and other current assets	892,242	1,310,364
Deferred taxes	3,059,567	3,059,567
Total current assets	49,437,727	48,525,683
Property, plant and equipment	5,107,203	5,107,203
Less accumulated depreciation and amortization	(2,664,125)	(2,573,958)
Property, plant and equipment, net	2,443,078	2,533,245
Other assets:		
Deposits	924,460	924,460
Deferred loan costs, net of amortization	372,819	398,719
Investment in Bellator	90,228	90,228
Total other assets	1,387,507	1,413,407
Total assets	$ 53,268,312	$ 52,472,335

(continued)

ALJ REGIONAL HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(continued)

	December 31, 2011	September 30, 2011
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current liabilities:		
Accounts payable	$ 9,139,418	$ 9,888,998
Accrued expenses	4,255,527	3,378,535
Accrued interest payable	2,006,828	1,476,233
Income taxes payable	861,371	867,300
Current portion of term loans	2,000,000	2,535,208
Current portion of capital lease obligation	130,807	171,792
Liabilities related to discontinued operations	2,984,660	2,984,660
Total current liabilities	$ 21,378,611	$ 21,302,726
Non-current liabilities:		
Secured line of credit	15,711,941	16,725,304
8% subordinated term loans	19,832,003	19,832,003
Term loans, less current portion	3,500,000	4,000,000
Series A Preferred stock of subsidiary subject to mandatory redemption; 13% cumulative, non-convertible, redeemable preferred stock, mandatory redemption and liquidation value of $1,000 per share; 5,936 shares issued and outstanding at December 31, 2011 plus cumulative dividends of $5,288,315, 5,936 shares issued and outstanding at September 30, 2011 plus cumulative dividends of $5,093,760	11,224,315	11,029,760
Deferred tax liability	383,158	383,158
Minority interest – related parties	6,084,875	5,775,831
Total liabilities	$ 78,114,903	$ 79,048,782
Commitments and contingencies		
Stockholders' deficiency:		
Common stock, $0.01 par value; authorized - 100,000,000 shares; 56,934,040 issued and outstanding at December 31, 2011 and September 30, 2011	569,340	569,340
Additional paid-in capital	288,371,674	288,365,584
Accumulated deficit	(312,958,029)	(314,681,795)
Treasury stock – 607,500 shares, at cost	(829,576)	(829,576)
Total stockholders' deficiency	(24,846,591)	(26,576,447)
Total liabilities and stockholders' deficiency	$ 53,268,312	52,472,335

See accompanying notes to condensed consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended December 31,	
	2011	**2010**
NET SALES	$38,894,890	$32,674,176
COSTS AND EXPENSES		
Cost of sales	33,403,449	28,841,322
Selling	537,459	454,152
General and administrative	1,695,484	1,377,435
Total cost of operations	35,636,392	30,672,909
Income from operations	3,258,498	2,001,267
OTHER INCOME (EXPENSE)		
Interest income	11,393	1,293
Interest expense:		
13% Series A Preferred Stock	(194,555)	(194,555)
Subordinated term loans	(405,034)	(629,083)
Other	(367,594)	(309,501)
Other income (expense), net	16,054	23,259
Total other income (expense)	(939,736)	(1,108,587)
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTEREST	2,318,762	892,680
Income taxes	(285,953)	(104,898)
INCOME (LOSS) BEFORE MINORITY INTEREST	2,032,809	787,782
MINORITY INTEREST – related parties	309,043	125,272
NET INCOME (LOSS)	1,723,766	662,510
NET INCOME (LOSS) PER COMMON SHARE -		
Basic	$0.03	$0.01
Dilutive	$0.03	$0.01
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		
Basic	56,934,040	49,729,574
Dilutive	58,534,040	49,929,574

See accompanying notes to condensed consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY
(UNAUDITED)
THREE MONTHS ENDED DECEMBER 31, 2011

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total
Balances at September 30, 2011	56,934,040	$ 569,340	$ 288,365,584	$ (314,681,795)	$ (829,576)	$ (26,576,447)
Share-based compensation:						
Restricted Stock			6,090			6,090
Net income				1,723,766		1,723,766
Balances at December 31, 2011	56,934,040	$ 569,340	$ 288,371,674	$ (312,958,029)	$ (829,576)	$ (24,846,591)

See accompanying notes to condensed consolidated financial statements

ALJ REGIONAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended December 31,	
	2011	**2010**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 1,723,766	$ 662,510
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	90,167	100,104
Stock-based compensation	6,090	54,021
Amortization of original issue discount on subordinated term loans	-	(3,679)
Amortization of deferred loan costs	25,900	112,118
Provision for bad debts	(92,019)	--
Minority interest – related parties	309,044	125,273
Changes in operating assets and liabilities:		
Decrease (increase) in -		
Accounts receivable, net	2,723,866	370,189
Inventories	(2,972,204)	(3,161,970)
Prepaid expenses and other receivables	418,122	777,606
Increase (decrease) in -		
Accounts payable	(749,580)	1,170,930
Accrued expenses	876,992	(369,487)
Income taxes payable	(5,929)	104,898
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	2,354,215	(57,487)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings (repayments) under equipment capital lease obligation	(40,985)	(36,371)
Net borrowings (repayments) under 8% term loans	530,595	621,446
Accrued dividends (repayments) of Preferred Stock	194,555	209,660
Repayments on term loans	(1,035,208)	(1,033,275)
Net repayments under secured line of credit	(1,013,363)	380,242
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(1,364,406)	141,702
NET CASH PROVIDED BY (USED IN) OPERATING, INVESTING AND FINANCING ACTIVITIES	989,809	84,215
CASH AND CASH EQUIVALENTS		
Net increase (decrease)	989,809	84,215
Balance at beginning of period	1,282,228	391,470
Balance at end of period	2,272,037	475,685
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for -		
Interest	132,828	283,137
Income taxes	351,698	0

Noncash investing and financing transactions:

See accompanying notes to condensed consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
DECEMBER 31, 2011

1. Organization and Basis of Presentation

Basis of Presentation

The accompanying consolidated financial statements include the accounts of ALJ Regional Holdings, Inc. ("ALJ" or the "Company"), and its direct and indirect wholly and majority-owned subsidiaries. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America. All inter-company items and transactions have been eliminated in consolidation.

Commencing March 1, 2005, the Company has included the operations of a steel mini-mill (the "Mill") owned and operated by its majority owned subsidiary, KES Acquisition Company, a Delaware corporation fka YouthStream Acquisition Corp ("KES"), in its consolidated financial statements (see Note 2 to Consolidated Financial Statements), which represents the only business segment in which the Company currently operates.

The accompanying condensed consolidated financial statements are unaudited, but in the opinion of Company management, contain all adjustments, which include normal recurring accruals, necessary to present fairly the financial position at December 31, 2011 and September 30, 2011, the results of operations for the three months ended December 31, 2011 and 2010, and the cash flows for the three months ended December 31, 2011 and 2010.

Certain information and footnote disclosures normally included in financial statements that have been prepared in accordance with generally accepted accounting principles have been condensed or omitted, although management of the Company believes that the disclosures contained in these financial statements are adequate to make the information presented therein not misleading.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The results of operations for the three months ended December 31, 2011 are not necessarily indicative of the results of operations to be expected for the full fiscal year ending September 30, 2012.

Liquidity and Capital Resources

The Company recognized net income of $1.7 million for the three month period ended December 31, 2011 and generated a positive cash flow from operating activities of $2.4 million for the three months ended December 31, 2011. The Company used $1.4 million in financing activities and had an accumulated deficit of $313.0 million and a stockholders' deficiency of $24.8 million at December 31, 2011.

The Company recognized net income of $11.4 million for the year ended September 30, 2011 and generated a positive cash flow from operating activities of $8.2 million for the year ended September 30, 2011. The Company used $7.3 million in operating activities and had an accumulated deficit of $314.7 million and a stockholders' deficiency of $26.6 million at September 30, 2011. The Mill relies on cash flows from operations and a secured credit facility with PNC Bank, National Association to fund its operations.

Based on its current level of operations, the Company believes that its current cash resources provided by operations and the Credit Facility (as defined below) will be adequate to fund its operations through December 31, 2012. However, to the extent the Company's estimates are inaccurate or its assumptions are

incorrect, the Company may not have sufficient cash resources to fund its operations. In such event, the Company may have to seek additional financing for the business.

The Company's management may also consider various strategic alternatives in the future, including the acquisition of new business opportunities, which may be from related or unrelated parties. However, there can be no assurances that such efforts will ultimately be successful. The Company may finance any acquisitions through a combination of debt and/or the issuance of equity securities.

2. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

ALJ is a holding company, whose primary asset is a majority share of the outstanding common stock and 100% of the voting securities of KES, the owner and operator of the Mill, which manufactures and sells steel bar flats.

Cash and Cash Equivalents

Cash and equivalents include all cash, demand deposits and money market accounts with original maturities of three months or less.

Accounts Receivable

The Company grants credit to its customers generally in the form of short-term trade accounts receivable. Management evaluates the credit risk of its customers utilizing historical data and estimates of future performance.

Accounts receivable are stated at the amount management expects to collect from outstanding balances. When appropriate, management provides for probable uncollectible amounts through a provision for doubtful accounts and an adjustment to a valuation allowance. Management reviews and adjusts this allowance periodically based on the aging of accounts receivable balances, historical write-off experience, customer concentrations, customer creditworthiness and current industry and economic trends. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Inventory

Inventories are comprised of raw materials (consisting of alloys and scrap metal), semi-finished goods (billets) and finished goods. Inventory costs include material, labor and manufacturing overhead. Inventories are valued at the lower of average cost or market. The average cost of the billets and scrap metal is adjusted periodically to reflect current changes in cost inputs. The market value of billet and scrap metal inventories was determined using replacement costs.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Expenditures for routine maintenance and repairs are charged to expense as incurred. Expenditures for equipment renewals and improvements, which extend the useful life of an asset, are capitalized. Certain equipment held under capital lease is classified as property, plant and equipment, and the related obligation is recorded as a liability. Lease amortization is included in depreciation expense.

Depreciation is provided on the straight-line method over the estimated useful lives of the assets, generally 3 to 20 years for machinery and equipment, and 20 to 40 years for buildings and improvements. Equipment under capital lease is amortized using the straight-line method over the primary lease term.

Revenue Recognition

The Company recognizes revenue when there is persuasive evidence that an arrangement exists, delivery of the product has occurred and title has passed, the selling price is both fixed and determinable, and collectibility is reasonably assured, all of which generally occur either upon shipment of the Company's product or delivery of the product to the destination specified by the customer.

Stock-Based Compensation

The Company recognizes compensation expense for its equity awards on a straight-line basis over the requisite service period of the award based on the estimated portion of the award that is expected to vest and applies estimated forfeiture rates based on analyses of historical data, including termination patterns and other factors. The Company uses the quoted closing market price of its common stock on the grant date to measure the fair value of restricted stock awards and the Black-Scholes option pricing model to measure the fair value of stock option awards. The expected volatility is based on historical volatilities of the Company's common stock over the most recent period commensurate with the estimated expected term of the awards. The expected term of an award is equal to the midpoint between the vesting date and the end of the contractual term of the award. The risk-free interest rate is based on the rate on U.S. Treasury securities with maturities consistent with the estimated expected term of the awards. The Company has not paid dividends and does not anticipate paying a cash dividend in the foreseeable future and, accordingly, uses an expected dividend yield of zero.

Income Taxes

The Company uses the asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax-credit carry-forwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amount of assets and liabilities and their tax bases.

The Company's judgments relative to the current provision for income taxes take into account current tax laws, the Company's interpretation of current tax laws and possible outcomes of current and future audits conducted by tax authorities. The Company files income tax returns in the U.S. federal jurisdictions and various state jurisdictions and is subject to U.S. federal tax and state tax examinations for years ranging from 2008 to 2010. The Company's judgments relative to the value of deferred tax assets and liabilities take into account estimates of the amount of future taxable income. Actual operating results and the underlying amount of income in future years could render the Company's current estimates of recoverable net deferred taxes inaccurate. Any of the judgments mentioned above could cause the Company's actual income tax obligations to differ from its estimates, thus materially impacting the Company's financial position and results of operations.

If the Company takes a recognized tax position or has taken a recognized tax position on a tax return that more likely than not would be sustained upon examination by tax authorities, then the Company will recognize the potential asset or liability in the financial statements. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Management believes that the Company has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accrual for tax liabilities are adequate for all open years on assessment of many factors including past experience and interpretation of tax law applied to the facts of each matter.

Concentrations

The Company maintains its cash balances with a number of financial institutions. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At times these balances are in excess of the FDIC insured balances.

For the three month period ending December 31, 2011, the Company had three suppliers that accounted for approximately 55% of raw materials purchases, of which approximately $2.8 million was included in accounts payable at December 31, 2011. For the three month period ending December 31, 2011, the Company had 3 customers that accounted for approximately 21% of net sales, of which approximately $2.4 million was included in accounts receivable at December 31, 2011.

Earnings Per Share

Basic net income or loss per share is computed by dividing net income or loss by the weighted average number of common shares outstanding for the period. Nonvested shares of restricted stock are not included in the computation of basic net income per share until vested. Diluted net income per share includes the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Diluted net income per share also includes the dilutive effect of nonvested shares of restricted stock.

The following table summarizes the basic and diluted weighted average shares for the three months ending December 31, 2011 and 2010:

	Three Months Ended December 31,	
	2011	**2010**
Weighted average shares outstanding, basic	56,934,040	49,729,574
Dilutive effect of:		
Options to purchase common stock	1,600,000	200,000
Weighted average shares outstanding, diluted	58,534,040	49,929,574

3. Acquisition of Steel Mini-Mill

In September 2003, ALJ invested $125,000 to acquire a 1.00% membership interest in KES Holdings, LLC, a Delaware limited liability company, which was formed to acquire certain assets of Kentucky Electric Steel, Inc., a Delaware corporation, consisting of the Mill pursuant to Section 363 of the United States Bankruptcy Code through its subsidiary, KES Acquisition Company, LLC, a Delaware limited liability company and predecessor of KES (“KES Acquisition”). The Mill had ceased production on or about December 16, 2002 and its prior owner had filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code on February 5, 2003. The Mill had been in operation for approximately forty years and was refurbished by KES Acquisition subsequent to its acquisition. The refurbished Mill has been generating revenues since late January 2004. ALJ completed its acquisition of the Mill in March 2005.

4. Recent Developments

None.

5. Related Party Transactions

None.

6. Discontinued Operations

As of December 31, 2011 and September 30, 2011, the Company maintained an estimated accrual of liabilities associated with the discontinued operations of $2,984,660 and $2,984,660, respectively, remaining from its discontinued businesses. The accrued liabilities consist primarily of severance, lease payments, tax payments and other costs related to the operations of the discontinued businesses.

7. Accounts Receivable

Accounts Receivable is summarized as follows at December 31, 2011 and September 30, 2011:

	December 31, 2011 Unaudited	September 30, 2011 Unaudited
Accounts Receivable	$ 12,502,058	$ 15,225,925
Less: Allowance for doubtful accounts	(611,512)	(703,532)
Total	$ 11,890,546	$ 14,522,393

8. Inventories

Inventories are comprised of the following at December 31, 2011 and September 30, 2011:

	December 31, 2011 Unaudited	September 30, 2011 Unaudited
Raw materials	$ 2,917,363	$ 2,739,663
Semi-finished goods	15,405,432	14,317,669
Finished goods	13,000,540	11,293,799
Total	$ 31,323,335	$ 28,351,131

Inventories are comprised of raw materials, semi-finished goods and finished goods. Inventory costs include material, labor and manufacturing overhead. Inventories are valued at the lower of average cost or market. The average cost of the billets and scrap metal is adjusted periodically to reflect current changes in cost inputs.

9. Property, Plant and Equipment

Property, plant and equipment consisted of the following at December 31, 2011 and September 30, 2011:

	December 31, 2011 Unaudited	September 30, 2011 Unaudited
Land	$ 142,498	$ 142,498
Buildings and improvements	572,497	572,497
Machinery and equipment	4,392,208	4,392,208
Total	5,107,203	5,107,203
Less: Accumulated depreciation and amortization	(2,664,125)	(2,573,958)
	2,443,078	2,533,245

Depreciation and amortization expense for the years ended December 31, 2011 and 2010 was $90,167 and $100,104.

10. Long-Term Debt

Secured Credit Line and Restructure of Debt Obligations

On September 30, 2011, KES entered into the Amended and Restated Revolving Credit, Term Loan and Security Agreement (the "Loan Agreement") with PNC Bank, National Association. The Loan Agreement provides for an asset-based revolving credit line of $30 million (the "Revolver") and a term loan of $6 million (the "Term Loan," and together with the Revolver, the "Credit Facility"), which is an increase from KES' prior credit line of $23 million and term loan of $4 million. The Term Loan and the Revolver bear interest at variable rates based on LIBOR or the base commercial lending rate of PNC as publicly announced from time to time. As of December 31, 2011 and September 30, 2011, the outstanding balance on the Term Loan was $5.5 million and $6.0 million, respectively, with an interest rate of 8.00%, and the outstanding balance on the Revolver was $15.7 million and $16.7 million, respectively, with an interest rate of 6.00%. The Credit Facility is secured by all of the assets of KES and contains customary covenants, including financial covenants requiring KES to maintain certain fixed charge coverage and leverage ratios and has been presented as a non-current liability in the balance sheet. In addition, the Credit Facility contains an event of default if Jess Ravich is no longer on ALJ's Board of Directors. As of December 31, 2011, KES was in compliance with all specified covenants. In the event that KES is not in compliance with any financial covenants, KES intends to seek a waiver of any default from the lender, and if no such waiver is received, the lender would have the right to accelerate the maturity of the Credit Facility at that time. The Term Loan is to be repaid in equal principal payments of $500,000 per quarter over twelve quarters plus certain mandatory prepayments. The Revolver expires on September 30, 2014.

Mr. Ravich, together with two related trusts, collectively guaranteed the Term Loan. KES agreed to pay a one-time fee of $200,000 to the guarantors. The agreement with the guarantors provides that in the event that Mr. Ravich is no longer a director of ALJ, other than by voluntary resignation, then a guaranty premium fee of $500,000 will be paid to the Ravich Children Permanent Trust of 1989. The terms of the guaranty and guaranty fee were approved by the independent members of each of the ALJ and KES Boards of Directors.

During the quarter ending December 31, 2011, the Company also repaid a loan payable to Lake Forest Bank and Trust Company in the amount of $535,208. The interest rate on the loan was 3.75%. There are currently no amounts due under this loan. As of September 30, 2011, the amount outstanding on the loan was $535,208.

8% Subordinated Loans

Subordinated loans (the "Subordinated Loans") consist of a series of loans due from KES under the Subordinated Financing Agreement dated July 20, 2009 by and among KES, the lenders party thereto and Ableco, L.L.C. (the "Subordinated Financing Agreement"), which replaced a series of subordinated secured promissory notes dated February 23, 2007, which were originally issued in March 2005 in connection with ALJ's acquisition of KES. The Subordinated Loans are subordinate to the Credit Facility. The Subordinated Loans bear interest at 8% per annum, with interest payable annually. So long as the Credit Facility remains outstanding, the Company may, at its discretion, capitalize unpaid accrued interest into the outstanding Subordinated Loan principal. Principal on the Subordinated Loans is due and payable upon the earlier to occur of (i) an event of default under the Subordinated Financing Agreement, which includes an event of default under the Credit Facility or (ii) February 22, 2017. At December 31, 2011 and September 30, 2011, the principal balance outstanding on the Subordinated Loans was $19.8 million. Accrued interest on the Subordinated Loans as of December 31, 2011 and September 30, 2011 was $2.0 million and $1.6 million, respectively. The Subordinated Loans are secured by a second priority security interest in all of KES' assets.

The subordinated lenders include affiliates of Ableco, L.L.C., ALJ and three directors who currently serve on ALJ's Board of Directors. These related parties hold Subordinated Loans with an aggregate principal balance of $10 million at both September 30, 2011 and December 31, 2011 and accrued interest of $794,456 and $1.1 million at September 30, 2011 and December 31, 2011.

13% Series A Preferred Stock

In connection with the acquisition of the mill and pursuant to its articles of incorporation, KES issued 25,000 shares of its 13% Series A Preferred Stock with the following rights, preferences and privileges:

a. Dividend Rights. The holders of the 13% Series A Preferred Stock are entitled to receive cumulative dividends in cash at the rate of 13% per year on the face amount of $1,000 per share payable concurrent with the redemption of the 13% Series A Preferred Stock. The dividends are payable, when and as declared by KES' Board of Directors, out of funds legally available for that purpose, upon a liquidation event or upon redemption of the 13% Series A Preferred Stock.

b. Liquidation and Redemption. The 13% Series A Preferred Stock contains a liquidation preference equal to $1,000 per share, plus accrued but unpaid dividends, and is redeemable out of, and to the extent of, legally available funds, at a redemption price equal to the sum of $1,000 and all accrued but unpaid dividends on the first anniversary of KES' full and complete repayment of the Subordinated Loans. As of December 31, 2011, the balance outstanding on the 13% Series A Preferred Stock was $5.9 million, related accrued dividends payable were $5.3 million and $1.9 million of the preferred stock was held by related parties. As of September 30, 2011, the balance outstanding on the 13% Series A Preferred Stock was $5.9 million, related accrued dividends payable were $5.1 million and $1.9 million of the preferred stock was held by related parties.

c. Convertibility and Voting Rights. The 13% Series A Preferred Stock is not convertible into any other security of the Company, and the holders thereof have no voting rights except with respect to any proposed changes in the preferences and special rights of such stock or except as granted to holders by law.

Pursuant to SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity," because the 13% Series A Preferred Stock provides for mandatory redemption in cash, it is classified as a long-term liability at the redemption value at December 31, 2011 and September 30, 2011 of $11.2 million and $11.0 million, respectively, including cumulative dividends of $5.3 million and $5.1 million, respectively.

6. Commitments and Contingencies

Operating Commitments

The Mill has been operating under a Management Agreement with Pinnacle Steel, LLC ("Pinnacle") effective through September 30, 2015 (the "Management Agreement") pursuant to which Pinnacle provides, at its expense, employees to serve as the general manager of the Mill and provide oversight and general management of the operations of the Mill. Pursuant to the Management Agreement, Pinnacle receives an annual fee of $700,000, payable monthly, and bonus payments based on 16.6% of defined earnings before interest, taxes, depreciation and amortization ("EBITDA") in excess of $6,000,000 for the fiscal years ending September 30, 2005 and thereafter. In addition, in the event the Management Agreement is terminated following a change of control of KES, an amount equal to two times the prior annual management fee payable would be payable to Pinnacle. Total management fee expense was $575,491 and $354,335 for the three months ended December 31, 2011 and 2010, respectively. As of December 31, 2011 and September 30, 2011, the balance of accrued management fee was $2.5 million and $2.1 million, respectively.

The Company has various short-term commitments for the purchase of materials, supplies and energy arising in the ordinary course of business which aggregated approximately $4.5 million and $3.6 million at December 31, 2011 and September 30, 2011, respectively.

The Company has a defined contribution pension plan for eligible employees who have completed one month of service and have attained the age of twenty-one. The Company's matching contribution equals 100% of each participant's elective deferral, not to exceed 6% of their eligible compensation. Participants are immediately vested in their deferred compensation and earnings thereon. The participant becomes 100% vested in the Company's matching contributions after one year of credited service. The Company may make other discretionary contributions to be determined on an annual basis. The Company's contributions charged to operations during the quarters ended December 31, 2011 and December 31, 2010 were approximately $110,000 and $98,000, respectively.

7. Income Taxes

For the three months ended December 31, 2011 and 2010, the Company had income tax expense due to taxable income from operations. The Company recognized federal and state income tax expense related to continuing operations for the three months ended December 31, 2011 and 2010 of $285,953 and $104,898.

Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Company files income tax returns in the U.S. federal jurisdiction and various states. The Company is subject to tax examinations for periods post 2008 by federal, state and local tax authorities for various tax liabilities incurred by the parent entity and its subsidiaries, including any discontinued businesses. The amount of any tax assessments and penalties may be material and may negatively impact the Company's operations. Given the uncertainty in the amount and the difficulty in estimating the probability of the assessments arising from future tax examinations, the Company has not made any accruals for such tax contingencies.

In assessing the realization of deferred tax assets, the Company performed an analysis of the available evidence to determine whether it is more likely than not that some portion or all of the deferred tax assets can be realized. One factor considered is the ability of the Company to generate consistent future taxable income in the periods in which the temporary differences become deductible. The main component of the deferred tax assets is the net operating loss carry-forward. There has been significant positive evidence established by the Company to justify that only a partial valuation allowance is necessary. The Company has shown consistent profitability over the past three years. Management also projects continued taxable income. Management believes it will be able to recognize a portion of its Net Operating Loss over the coming years. Management has decided to realize a net deferred tax asset for $2.6 million. A valuation allowance of $88.6 million has been established against the deferred tax asset of $91.3 million as of both December 31, 2011 and September 30, 2011.

Effective October 1, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN48"). FIN48 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Management believes that the Company has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accrual for tax liabilities are adequate for all open years on assessment of many factors including past experience and interpretation of tax law applied to the facts of each matter.

At December 31, 2011, the Company had a net operating loss carry-forward for federal income tax purposes of approximately $259 million that expires from 2020 through 2028. The use of approximately $36 million of this net operating loss in future years may be restricted under Section 382 of the Internal Revenue Code. The realization of the benefits of the net operating losses is dependent upon sufficient taxable income in future years. Lack of consistent future earnings, a change in ownership of the Company,

or the application of the alternative minimum tax rules could adversely affect the Company's ability to utilize these net operating losses.

For taxable periods beginning after February 28, 2005, KES is included in the consolidated federal income tax return filed by ALJ as common parent. KES has entered into a Tax Sharing Agreement with ALJ, pursuant to which it has agreed to pay ALJ an amount equal to 50% of its "separate company tax liability," subject to compliance with the Credit Facility and Subordinated Financing Agreement. The term "separate company tax liability" is defined as the amount, if any, of the federal income tax liability (including, without limitation, liability for any penalty, fine, additions to tax, interest, minimum tax and other items applicable to such subsidiary in connection with the determination of the subsidiary's tax liability), which such subsidiary would have incurred if its federal income tax liability for the periods during which it is includible in a consolidated federal income tax return with ALJ were determined generally in the same manner in which its separate return liability would have been calculated under Section 1552(a)(2) of the Code.

8. Share-based Compensation and Stock Options

The Company determines the fair value of all stock-based compensation, including stock options and warrants by using the Black-Scholes option-pricing model. Included in the selling, general and administrative expenses for the three months ended December 31, 2011 and 2010, the Company recognized share-based share compensation expense of $6,090 and $7,814, respectively, related to the issuance of restricted stock in prior periods and $0 and $46,207, respectively, related to the issuance of stock options in a prior period.

All share-based payments to employees are recognized in the financial statements as compensation expense based on the fair value on the date of grant. The Black-Scholes model requires input of certain assumptions, including volatility, expected term, risk-free interest rates, and dividend yield. For restricted stock grants issued during the twelve months ended September 30, 2011, the Company computed volatility of 106% and a risk-free interest rate of 0.15%. For restricted stock grants issued during the twelve months ended September 30, 2010, the Company computed volatility of 135% and a risk-free interest rate of 0.32%. Volatility was computed over the most recent period commensurate with the expected term of the options and restricted stock. The risk-free interest rate was based on the rate of U.S. Treasury securities with maturities consistent with the expected term of the options and restricted stock. The Company has not paid dividends on its common stock and does not anticipate paying a cash dividend in the foreseeable future and accordingly, uses an expected dividend yield of zero.

The summary of stock option activity for the three months ending December 31, 2011 is as follows:

	Number of Options	Weighted Average Exercise Price per Share	Weighted Average Contractual Term
Balance outstanding as of September 30, 2011	2,800,000	$0.38	9.3 years
Granted	0	$0.00	
Forfeited	0	$0.00	
Balance outstanding as of December 31, 2011	2,800,000	$0.38	9.3 years
Options vested as of December 31, 2011	2,800,000	$0.38	9.3 years

9. Subsequent Events

None.

ITEM 4. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

General Overview

Commencing March 1, 2005, the Company has included the operations of the Mill, which represents the only business segment in which the Company currently operates, in its consolidated financial statements. The Company completed the acquisition of the Mill on March 9, 2005 (see Note 3 to Consolidated Financial Statements).

Critical Accounting Policies and Estimates

The Company prepared its financial statements in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Management periodically evaluates the estimates and judgments made. Management bases its estimates and judgments on historical experience and on various factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates as a result of different assumptions or conditions.

The Company believes that of its significant accounting policies, which are described in Note 2 to the accompanying consolidated financial statements and in the Company's annual report for the year ended September 30, 2011, the following accounting policies involve a greater degree of judgment and complexity. Accordingly, these are the policies the Company believes are the most critical to aid in fully understanding and evaluating its consolidated financial condition and results of operations.

Revenue Recognition

The Company recognizes revenue when there is persuasive evidence that an arrangement exists, delivery of the product has occurred and title has passed, the selling price is both fixed and determinable, and collectability is reasonably assured, all of which generally occur either upon shipment of the Company's product or delivery of the product to the destination specified by the customer.

Accounts Receivable

The Company grants credit to its customers generally in the form of short-term trade accounts receivable. Management evaluates the credit risk of its customers utilizing historical data and estimates of future performance. Accounts receivable are stated at the amount management expects to collect from outstanding balances. When appropriate, management provides for probable uncollectible amounts through a provision for doubtful accounts and an adjustment to a valuation allowance. Management reviews and adjusts this allowance periodically based on the aging of accounts receivable balances, historical write-off experience, customer concentrations, customer creditworthiness, and current industry and economic trends. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Inventories

Inventories are comprised of raw materials, semi-finished goods and finished goods. Inventory costs include material, labor and manufacturing overhead. Inventories are valued at the lower of average cost or market. The average cost of the billets, scrap metal, and finished goods is adjusted monthly.

Income Taxes

The Company uses the asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax-credit carry-forwards, and deferred tax liabilities are

recognized for taxable temporary differences. Temporary differences are the differences between the reported amount of assets and liabilities and their tax bases.

The Company's judgments relative to the current provision for income taxes take into account current tax laws, the Company's interpretation of current tax laws and possible outcomes of current and future audits conducted by tax authorities. The Company files income tax returns in the U.S. federal jurisdictions and various state jurisdictions and is subject to U.S. federal tax and state tax examinations for years ranging from 2008 to 2010. The Company's judgments relative to the value of deferred tax assets and liabilities take into account estimates of the amount of future taxable income. Actual operating results and the underlying amount of income in future years could render the Company's current estimates of recoverable net deferred taxes inaccurate. Any of the judgments mentioned above could cause the Company's actual income tax obligations to differ from its estimates, thus materially impacting the Company's financial position and results of operations.

If the Company takes a recognized tax position or has taken a recognized tax position on a tax return that more likely than not would be sustained upon examination by tax authorities, then the Company will recognize the potential asset or liability in the financial statements. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Management believes that the Company has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accrual for tax liabilities are adequate for all open years based on assessment of many factors, including past experience and interpretation of tax law applied to the facts of each matter.

Results of Operations for the Three Months Ending December 31, 2011 and 2010

The following table sets forth selected unaudited consolidated statements of operations data for each of the periods indicated on an actual basis and as a percentage of total revenues for the respective periods.

	Three Months Ended December 31,			
	2011		2010	
Net Sales	$38,894,890	100.0%	$32,674,176	100.0%
Cost of sales	33,403,449	85.9%	28,841,322	88.3%
Gross Profit	5,491,441	14.1%	3,832,854	11.7%
Selling	537,459	1.4%	454,152	1.4%
General and administrative	1,695,484	4.3%	1,377,435	4.2%
Income from operations	3,258,498	8.4%	2,001,267	6.1%

For the three months ended December 31, 2011 and 2010

Net Sales

Net sales for the three months ending December 31, 2011 were $38.9 million, an increase of $6.2 million, or 19%, over net sales of $32.7 million for the three months ending December 31, 2010. The increase in net sales was primarily attributable to an increase in tons invoiced of 740 tons, or 2%, and an increase of 17% in the average selling price per ton.

Cost of Sales

Cost of sales for the three months ending December 31, 2011 were $33.4 million, an increase of $4.6 million, or 16%, over cost of sales of $28.8 million for the three months ending December 31, 2010. Cost of sales as a percentage of sales for the three months ending December 31, 2011 was 85.9% as compared to cost of sales as a percentage of sales for the three months ending December 31, 2010 of

88.3%. The increase in cost of sales was primarily due to an increase of $3.0 million in materials, including scrap, alloys and billets due to price increases.

Gross Profit

Gross profit for the three months ending December 31, 2011 was $5.5 million, an increase of $1.7 million, or 43%, over gross profit of $3.8 million for the three months ending December 31, 2010. Gross profit as percentage of sales decreased for the three months ending December 31, 2011 to 14.1% as compared to the gross profit as a percentage of sales of 11.7% for the three months ending December 31, 2010. The increase in gross profit as a percentage of sales was primarily attributable to product mix.

Selling Expenses

Selling expenses for the three months ending December 31, 2011 were $537,459, an increase of $83,307, or 18% over selling expenses for the three months ending December 31, 2010 of $454,152. Selling expenses as a percentage of sales was comparable for the three months ending December 31, 2011 and December 31, 2010 at 1.4%. Selling expenses primarily increased as a result of higher commissions related to higher sales revenue.

General and Administrative Expenses

General and administrative expenses for the three months ending December 31, 2011 were $1.7 million, an increase of $318,049, or 23% over general and administrative expenses of $1.4 million for the three months ending December 31, 2010. General and administrative expenses as a percentage of sales for the three months ending December 31, 2011 were 4.3% as compared to general and administrative expenses as a percentage of sales for the three months ending December 31, 2010 of 4.2%. The increase was primarily attributable to an increase in legal fees and management incentive fees.

Liquidity and Capital Resources – December 31, 2011

The Company recognized net income of $1.7 million for the three month period ended December 31, 2011 and generated a positive cash flow from operating activities of $2.4 million for the three months ended December 31, 2011. The Company used $1.4 million in financing activities and had an accumulated deficit of $313.0 million and a stockholders' deficiency of $24.8 million at December 31, 2011.

The Company recognized net income of $11.4 million for the year ended September 30, 2011 and generated a positive cash flow from operating activities of $8.2 million for the year ended September 30, 2011. The Company used $7.3 million in operating activities and had an accumulated deficit of $314.7 million and a stockholders' deficiency of $26.6 million at September 30, 2011. The Mill relies on cash flows from operations and a secured credit facility with PNC Bank, National Association to fund its operations.

Based on its current level of operations, the Company believes that its current cash resources provided by operations and the Credit Facility will be adequate to fund its operations through December 31, 2012. However, to the extent that the Company's estimates are inaccurate or its assumptions are incorrect, the Company may not have sufficient cash resources to fund its operations. In such event, the Company may have to seek additional financing for the business.

The Company's management may also consider various strategic alternatives in the future, including the acquisition of new business opportunities, which may be from related or unrelated parties. However, there can be no assurances that such efforts will ultimately be successful. The Company may finance any acquisitions through a combination of debt and/or the issuance of equity securities.

As of December 31, 2011, the balance outstanding on the Credit Facility was $21.2 million ($15.7 million under the Revolver and an aggregate of $5.5 million under the Term Loan).

At December 31, 2011, KES was in compliance with all financial covenants under the Credit Facility based on its financial statements.

To the extent that the Mill generates taxable income in the future, the Tax Sharing Agreement with KES will generate cash payments to ALJ equal to 50% of its "separate company tax liability," subject to compliance with the Credit Facility. The tax sharing payment due to ALJ for the three months ending December 31, 2011 was $95,177. ALJ has approximately $259 million of federal net operating loss carryovers currently available to offset any federal income tax liability of KES in subsequent periods. ALJ expects that its federal net operating loss carryovers will be sufficient to absorb most of any future federal income tax liability of KES.

The long-term economic viability of the Mill and its ability to fund its operations and debt service requirements, including maintaining compliance with various debt covenants and servicing the interest and principal obligations under the Credit Facility and Subordinated Financing Agreement and the dividends and redemption features on the Series A Preferred Stock issued in connection with the acquisition of the Mill, is dependent on various internal and external factors, including the Mill's ability to operate on a sustained basis at 45% or more of its annual capacity of 200,000 tons per year, as currently configured. To the extent that the Mill is not able to maintain an appropriate operating threshold, the ability of the Mill to generate sufficient cash flows to fund its operations and debt service requirements and maintain compliance with various debt covenants may be impaired.

Operating Activities

During the three months ending December 31, 2011, the Company generated $2.4 million from operating activities, primarily attributable to net income of $1.7 million, a decrease in accounts receivable of $2.7 million partially offset by an increase in inventory of $3.0 million.

Financing Activities

For the three months ending December 31, 2011, the Company used $1.3 million in financing activities primarily attributable to the partial repayment of $1.0 million against the line of credit, partial repayment of $500,000 against the Term Loan, and full repayment of $535,208 against the Lake Forest term loan.

Principal Commitments

At December 31, 2011, the Company's principal commitments consisted of the following obligations:

	Payments Due by 12 Month Periods Ending December 31, (in thousands)					
Contractual cash obligations	**Total**	**2012**	**2013**	**2014**	**2015**	**Thereafter**
8% Subordinated loans	21,839	---	---	---	---	21,839
Term loan – PNC	5,500	2,000	2,000	1,500	---	---
Revolver – PNC	15,712	---	---	15,712	---	---
Operating leases	1,888	724	724	361	45	34
Capital lease obligation	131	131	---	---	---	---
Management services agreement	2,625	700	700	700	525	---
13% Series A Preferred Stock of subsidiary subject to mandatory redemption, including accrued dividends	11,224	---	---	---	---	11,224
Total contractual cash obligations	$ 58,919	$ 3,555	$ 3,424	$ 18,273	$ 570	$ 33,097

At December 31, 2011, the Company did not have any material commitments for capital expenditures.

At December 31, 2011, the Company has various short-term commitments for the purchase of materials, supplies and energy arising in the ordinary course of business which aggregated approximately $4.5 million.

Off-Balance Sheet Arrangements

The Company does not have any transactions, obligations or relationships that could be considered off-balance sheet arrangements at December 31, 2011.

ITEM 5. LEGAL PROCEEDINGS

From time to time the Company may be involved in litigation arising from its activities. Presently the Company is not involved in any material litigation.

ITEM 6. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 7. OTHER INFORMATION

None.

RISK FACTORS

The following risk factors and other information included in this Report should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks actually occur, our business, financial condition and operating results could be significantly harmed.

Risks Related to Our Business

Payments under our Tax Sharing Agreement are uncertain.

Our subsidiary, KES is included in the consolidated federal income tax return filed by ALJ as the common parent. KES has entered into a Tax Sharing Agreement with ALJ, pursuant to which it has agreed to pay ALJ an amount equal to 50% of its "separate company tax liability" (as defined in the agreement), subject

to compliance with the Credit Facility. Periodic tax sharing payments from KES are currently the sole source of funds distributed to ALJ from the operations of the Mill. The tax sharing payments are necessary to fund corporate overhead at the ALJ level and the receipt of such payments is dependent upon the availability of sufficient cash resources from Mill operations. There can be no assurance that there will be sufficient levels of cash resources generated from Mill operations to support tax sharing payments or to pay our operating expenses.

Our industry is cyclical and prolonged economic declines could have a material adverse effect on our business.

Demand for most of our products is cyclical in nature and sensitive to general economic conditions. Our business supports cyclical industries such as commercial construction, energy, and manufacturing all of which have been adversely impacted by the recent economic downturn. As a result, our results of operations and cash flows may suffer. Because steel mills generally have high fixed costs, reduced volumes result in operating inefficiencies. A further decline in the U.S. economy could materially adversely affect our business, results of operations and financial condition and cash flows.

Our level of production and our sales and earnings are subject to significant fluctuations.

The U.S. steel industry recently experienced a significant economic downturn. This decline led to deterioration in backlog and, therefore, overcapacity in producing mills worldwide.

The price of steel and steel products may fluctuate significantly due to many factors beyond our control. Such fluctuation would directly affect our levels of production, sales and earnings. The domestic steel industry has been highly cyclical in nature, influenced by a combination of factors, including periods of economic growth or recession, strength or weakness of the U.S. dollar, worldwide production capacity, levels of steel imports and applicable tariffs. The demand for steel products is generally affected by macroeconomic fluctuations in the U.S. and the global economies in which steel companies sell their products. We have experienced a drop in demand for our products as a result of the current economic downturn and further economic decline, stagnation, or currency fluctuations could further decrease the demand for products or increase the amount of imports of steel into the U.S., which could negatively impact our sales, margins and profitability. In addition, prolonged weakness in any industries in which we sell our products could materially adversely affect our results of operations and cash flows.

Our business requires maintenance expenditures and may require capital investment which we may be unable to provide.

We require capital for, among other purposes, maintaining the condition of KES' existing equipment and maintaining compliance with environmental laws and regulations. From time to time, KES may also require capital to acquire new equipment. To the extent that cash generated internally and cash available under our credit facility is not sufficient to fund capital requirements, KES will require additional debt and/or equity financing. However, this type of financing may not be available or, if available, may not be on satisfactory terms, particularly given the current credit crisis. Future debt financings, if available, will require the approval of KES' existing lenders and may result in increased interest and amortization expense. In addition, future debt financings by KES may limit our ability to withstand competitive pressures and render us more vulnerable to economic downturns. If KES fails to generate or obtain sufficient additional capital in the future, KES could be forced to reduce or delay capital expenditures, sell assets or restructure or refinance its indebtedness, which in turn would also have an adverse effect on the amount of the tax sharing payments KES makes to us.

Unexpected equipment failures or unanticipated events may lead to production curtailments or shutdowns resulting in lost revenues and increased costs.

Interruptions in production capabilities will inevitably increase production costs and reduce KES' sales and earnings. KES' manufacturing processes depend on critical pieces of steelmaking equipment, such as furnaces, continuous casters and rolling equipment, as well as electrical equipment, such as transformers,

and this equipment may, on occasion, be out of service as a result of unanticipated failures. In the future, KES may experience material plant shutdowns or periods of reduced production as a result of equipment failures. Furthermore, any interruption in production capability may require KES to make large capital expenditures to remedy the situation, which could have a negative effect on our profitability and cash flows. In addition to equipment failures, KES' facilities are also subject to the risk of catastrophic loss due to unanticipated events such as fires, explosions, adverse weather conditions or transportation interruptions. KES maintains business interruption insurance to offset these potential lost revenues or increased costs; however, there can be no assurance that our coverage is sufficient to fully offset the lost revenues or increased costs that we may experience. In addition to the revenue losses, longer-term business disruption could result in a loss of customers. If this were to occur, KES' future sales levels, and therefore profitability and cash flows, could be adversely affected, which in turn would also have an adverse effect on the amount of the tax sharing payments KES makes to us.

Competition from other materials may materially adversely affect our business.

In many applications, steel competes with other materials, such as aluminum, cement, composites, glass, plastic and wood. Increased use of these materials in substitution for steel products could materially adversely affect prices and demand for KES' steel products.

Environmental regulations impose substantial costs and limitations on operations.

KES is subject to various federal, state and local environmental, health and safety laws and regulations, and is required to maintain numerous permits and governmental approvals for operation, concerning issues such as air emissions, wastewater discharges, solid and hazardous waste management and disposal and the investigation and remediation of contamination. These laws and regulations are becoming increasingly stringent. While we believe that KES' facilities are in material compliance with all permits, governmental approvals, applicable environmental laws and regulations, the risks of substantial unanticipated costs and liabilities related to compliance with these permits, governmental approvals, laws and regulations are an inherent part of KES' business. It is possible that future conditions may develop, arise or be discovered that create new environmental compliance or remediation liabilities and costs. While we believe that we can comply with environmental legislation and regulatory requirements and that the costs of compliance have been included within budgeted cost estimates, compliance may prove to be more limiting and costly than anticipated. There can also be no assurance that KES' facilities will continue to operate in accordance with the conditions and restrictions established by the permits or approvals. Similarly, we cannot assure you that the requirements contained in such permits will not change or that KES' facilities will be able to renew or to maintain all permits and approvals required for continued operation of the facilities.

If any substances are found at KES' facilities that are classified by applicable environmental laws, ordinances or regulations as hazardous materials, we could become liable for the investigation and removal of those substances, regardless of their source. Failure to comply with these laws, ordinances or regulations, or any change in the requirements of these laws, ordinances or regulations could result in liabilities, imposition of cleanup liens and fines and large expenditures to bring the facilities into compliance. We may also be subject from time to time to legal proceedings brought by private parties or governmental agencies with respect to environmental matters, including matters involving alleged property damage or personal injury.

The potential presence of radioactive materials in the scrap that we melt in our electric arc furnaces presents significant risks.

The potential presence of radioactive materials in our scrap supply presents significant economic risks. The cost to clean up the contaminated material and the loss of revenue resulting from the loss in production time could be material to our business, results of operations and financial condition. While we have three detection devices at the Mill, radioactive scrap could go undetected. If we fail to detect radioactive material in the scrap we receive, we may incur significant costs to clean up the contamination of our facilities and to dispose of the contaminated material, which could have a material adverse effect on our results of operation and financial condition. In addition, there can be no assurance that we will have sufficient financial

resources to fund the cleanup costs in such event, which could result in a potential suspension or curtailment of operations at the Mill.

The results of our operations are sensitive to volatility in steel prices and changes in the cost of raw materials, particularly scrap steel.

We rely, to a substantial extent, on outside vendors to supply KES with raw materials that are critical to the manufacture of its products. KES acquires its primary raw material, steel scrap, from brokers. Although we believe that the supply of scrap is adequate to operate KES' facilities, we are subject to risks due to the volatility of the purchase prices of this critical raw material.

At any given time, KES may be unable to obtain an adequate supply of scrap at a price and other terms acceptable to it. Additionally, any change in KES' relationship with its scrap brokers could make it more difficult or costly for it to obtain scrap, which could have an adverse impact on our financial condition and results of operations.

If KES' suppliers increase the price of its critical raw materials, it may not be able to locate alternative sources of supply. If KES is unable to obtain adequate and timely deliveries of its required raw materials, KES may be unable to timely and cost effectively manufacture sufficient quantities of its products. This could cause KES to lose sales, incur additional costs and suffer harm to its reputation, financial condition and results of operations, which in turn would also have an adverse effect on the amount of tax sharing payments KES makes to us. These tax sharing payments are ALJ's sole source of cash to pay its operating expenses.

If demand and prices for steel deteriorate, KES' sales may decline and it may be required to recognize losses on the carrying value of its inventory. KES was not required to make any lower of cost or market adjustments to the carrying value of its inventory for the twelve months ended December 31, 2011.

The availability and cost of electricity and natural gas are subject to volatile market conditions that could adversely affect our business.

Our Mill is a large consumer of electricity and natural gas. KES relies upon third parties for the supply of energy resources consumed in the manufacture of its products. The prices for and availability of electricity, natural gas, oil and other energy resources are subject to volatile market conditions. These market conditions often are affected by weather, political and economic factors, all of which are beyond our control. Disruptions in the supply of the energy resources could temporarily impair KES' ability to manufacture its products. Additionally, increases in energy costs could materially adversely affect KES' business, results of operations, financial condition and cash flows, which in turn would also have an adverse effect on the amount of tax sharing payments KES makes to us. These tax sharing payments are ALJ's sole source of cash to pay its operating expenses.

Mill management may be difficult to replace if they leave.

Management of the Mill is currently conducted by employees of Pinnacle pursuant to the Management Agreement which expires on September 30, 2015, subject to earlier termination or extension based on the performance of the Mill. Our operations and prospects depend in large part on the performance of our Mill management team. The loss of the services of one or more members of our Mill management team or the inability to attract, retain and maintain qualified additional Mill management personnel could harm our business, financial condition, results of operations and future prospects.

Our production and earnings could be reduced by strikes or work stoppages by our employees.

As of December 31, 2011, the Mill employed 138 individuals. If the Mill employees were to strike or we faced similar work stoppages we would experience a disruption of production at our facility, which would cause an adverse impact on our operating costs and results of operations.

Our level of indebtedness and other demands on our cash resources could materially adversely affect our ability to execute our business strategy.

Our total debt obligations (including preferred stock considered as debt obligations in our consolidated financial statements) are approximately $54 million on a consolidated basis as of December 31, 2011. Subject to the limits contained in our Credit Facility and Subordinated Financing Agreement, we may also incur additional debt in the future. In addition to interest and principal payments on our outstanding debt and dividends and repurchase obligations with respect to our preferred stock, we, and in particular KES, have other demands on our cash resources, including, among others, capital expenditures that may arise from time to time and operating expenses.

Our significant indebtedness levels and other demands on our cash resources could have a material effect on our operations and our ability to execute our business strategy. Specifically, our debt has the following impacts on our operations, among others:

- Except for periodic tax sharing payments, all of KES' cash flows must be used to fund its operations and service its debt obligations, including interest, dividends, required principal payments, and required preferred stock repurchase obligations, and therefore is not available for use in KES' business, including working capital needs;

- Our ability to obtain additional debt financing for working capital, capital expenditures, general corporate purposes or other purposes could be impaired by the terms and amount of KES' existing debt and if additional funding is required we may be required to seek additional equity financings, which may have a dilutive impact on our existing stockholders or may not be unavailable on acceptable terms or at all;

- Our failure to comply with restrictions and covenants contained in the terms of our debt agreements, in particular the Credit Facility and Subordinated Financing Agreement, could lead to a default which could cause all or a significant portion of our debt to become immediately payable; if such default is not cured or waived, our lenders could foreclose on our assets, which could result in a complete loss of our stockholders' investments;

- Restrictions in our debt agreements could limit our flexibility in planning for, or reacting to, changes in the industries in which we compete;

- Our level of indebtedness could place us at a competitive disadvantage compared to our competitors, some of which have less debt service obligations and greater financial resources than we do; and

- Our level of indebtedness could increase our vulnerability to general adverse economic and industry conditions.

To service our indebtedness, we will require a significant amount of cash, and our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on our indebtedness and to fund any future capital expenditures required by KES will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

We cannot assure you that KES' business will generate sufficient cash flow from operations, or that future borrowings will be available to us under the Credit Facility in an amount sufficient to enable us to pay our indebtedness, or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness, on or before maturity. We cannot assure you that we will be able to refinance any of our indebtedness, including the Credit Facility, on commercially reasonable terms or at all, particularly given the current state of credit markets.

We have variable rate indebtedness that subjects us to interest rate risk, which could cause our annual debt service obligations to increase significantly.

A portion of our current borrowings, namely the Credit Facility ($15.7 million Revolver and $5.5 million Term Loan at December 31, 2011), and potential future borrowings, are and may continue to be at variable rates of interest, thus exposing us to interest rate risk. If interest rates increase, our debt service obligations on our variable rate indebtedness would increase even if the amount borrowed remained the same, resulting in a decrease in our net income. For example, if interest rates increased in the future by 100 basis points, based on our current borrowings as of December 31, 2011, we would incur approximately an additional $53,000 per quarter in interest expense.

Our net operating loss carryforwards could be substantially limited if we experience an "ownership change" as defined in Section 382 of the Internal Revenue Code.

Our ability to utilize NOLs and tax credit carry-forwards to offset our future taxable income and/or to recover previously paid taxes would be limited if we were to undergo an "ownership change" within the meaning of Section 382 of the Code.

Section 382 of the Code contains rules that limit the ability of a company that undergoes an "ownership change," which is generally any change in ownership of more than 50% of its stock over a three-year period, to utilize its NOLs and certain built-in losses recognized in years after the ownership change. These rules generally operate by focusing on ownership changes among stockholders owning directly or indirectly 5% or more of the stock of a company and any change in ownership arising from a new issuance of stock by the company.

If we undergo an ownership change for purposes of Section 382 as a result of future transactions involving our common stock, including purchases or sales of stock between 5% shareholders, our ability to use our NOLs and to recognize certain built-in losses would be subject to the limitations of Section 382. Depending on the resulting limitation, a significant portion of our NOLs could expire before we would be able to use them. We had approximately $259 million of (pre-tax) NOLs as of December 31, 2011. The NOLs do not begin to expire until 2020 and are available to be used at some level through 2025. Our inability to utilize our NOLs could have a negative impact on our financial position and results of operations.

We do not believe we have experienced an "ownership change" as defined by Section 382 in the last three years. However, whether a change in ownership occurs in the future is largely outside of our control, and there can be no assurance that such a change will not occur.

In May 2009, we announced that our Board adopted a shareholder rights plan designed to preserve stockholder value and the value of certain tax assets primarily associated with NOLs and built in losses under Section 382 of the Code.

We also amended our certificate of incorporation to add certain restrictions on transfers of our stock that may result in an ownership change under Section 382.

Our ability and the ability of KES to engage in some business transactions may be limited by the terms of our debt.

The Subordinated Financing Agreement and Credit Facility contain a number of financial covenants requiring KES to meet financial ratios and financial condition tests, as well as covenants restricting its ability to:

- incur additional debt;
- make certain capital expenditures;
- incur or permit liens to exist;

- enter into transactions with affiliates;
- guarantee the debt of other entities, including joint ventures;
- merge or consolidate or otherwise combine with another company; and
- transfer or sell our assets.

KES' ability to borrow under the Credit Facility will depend upon its ability to comply with certain covenants and borrowing base requirements. Its ability to meet these covenants and requirements may be affected by events beyond its control and it may not meet these obligations. The failure of KES to comply with these covenants and requirements could result in an event of default under the Credit Facility or Subordinated Financing Agreement that, if not cured or waived, could terminate its ability to borrow further, permit acceleration of the relevant debt (and other indebtedness based on cross default provisions) and permit foreclosure on any collateral granted as security under the Credit Facility or Subordinated Financing Agreement. There can also be no assurance that the lenders will grant waivers on covenant violations, if they occur. Any such event of default would have a material adverse effect on us as KES is our principal asset and cash we receive through our tax sharing payments from KES is our sole source of cash to pay our operating expenses.

We rely upon a small number of major customers for a substantial percentage of our sales.

A loss of any large customer or group of customers could materially reduce our sales and earnings. We have substantial business relationships with a few large customers. For the three month period ending December 31, 2011, the Company had 3 customers that accounted for approximately 21% of net sales. We expect to continue to depend upon a small number of customers for a significant percentage of our net sales, and cannot assure you that any of them will continue to purchase steel from us.

Our internal controls and procedures may be deficient.

Our internal controls and procedures may be subject to deficiencies or weaknesses. Remedying and monitoring internal controls and procedures distracts our management from its operations, planning, oversight and performance functions, which could harm our operating results. Additionally, any failure of our internal controls or procedures could harm our operating results or cause us to fail to meet our obligation to maintain adequate public information.

We may have unknown liabilities stemming from YouthStream Media Networks, Inc.'s historical operations.

There may have been liabilities that stem from YouthStream Media Networks, Inc.'s historical operations of which we are not aware. In the event any such liability becomes known, it may lead to claims against us, including, but not limited to, lawsuits, administrative proceedings, and other claims. Any such liabilities may subject us to increased expenses for attorneys' fees, fines and litigation and expenses associated with any subsequent settlements or judgments. There can be no assurance that such unknown liabilities do not exist. To the extent that such liabilities become known, any such liability-related expenses may materially and adversely affect our profitability, operating results and financial condition.

We may encounter difficulties in acquiring other companies.

We acquired the Mill effective March 1, 2005 and may in the future acquire other companies. If we identify suitable candidates, we may not be able to make investments or acquisitions on commercially acceptable terms. Acquisitions may cause a disruption in our ongoing business, distract management, require other resources and make it difficult to maintain our standards, controls and procedures. We may not be able to retain key employees of the acquired companies or maintain good relations with their clients or suppliers. We may be required to incur additional debt and to issue equity securities to effect and/or fund acquisitions, which may be dilutive to existing stockholders.

We cannot assure you that any acquisitions we make will enhance our business.

We cannot assure you that any completed acquisition will enhance our business. Since we anticipate that acquisitions could be made with both cash and our common stock, the potential impacts that may arise if we consummate one or more significant acquisitions may include:

- a substantial portion of our available cash could be used to consummate the acquisitions and/or we could incur or assume significant amounts of indebtedness; and
- our stockholders could suffer significant dilution of their interest in our common stock.

Also, we are required to account for acquisitions under the purchase method, which would likely result in our recording significant amounts of goodwill or other tangible and intangible assets. The inability of a subsidiary to sustain profitability may result in an impairment loss in the value of long-lived assets, principally goodwill and other tangible and intangible assets, which would adversely affect our financial statements.

Decreases in the demand for steel could have a material adverse impact on our business.

The U.S. steel industry has recently experienced a significant economic downturn. This decline has led to deterioration in backlog and, therefore, excess capacity in producing mills worldwide, which has already resulted in a corresponding decrease in our sales and may adversely impact our sales, financial condition and results of operations going forward. Further, while we operate in the U.S., the global steel industry has suffered significant deterioration in demand, which has had an adverse affect on steel prices in the U.S.

We may face significant price and other forms of competition from other steel producers, which could have a material adverse effect on our business, financial condition, results of operation or prospects.

The global markets in which steel companies conduct business are highly competitive. Increased competition could cause us to lose market share or reduce pricing, either one of which could have a material adverse effect on our business, financial condition, results of operations or prospects. We compete primarily on the basis of price, quality and the ability to meet our customers' product needs and delivery schedules. Some of our competitors may have advantages due to greater capital resources, different technologies, lower raw material costs, lower energy costs or favorable exchange rates.

Risks Related to our Common Stock

Our common stock is illiquid and stockholders may be unable to sell their shares.

Our common stock is currently quoted on the "Pink Sheets" under the symbol "ALJJ.PK." There is currently only a limited market for our common stock and we can provide no assurance to investors that a more robust market will develop. If a broader market for our common stock does not develop, our stockholders may encounter difficulties selling their common stock from time to time. We do not have the ability to uplist our stock on NASDAQ, the NYSE or the AMEX exchanges because we do not meet the qualifications for listing on those exchanges at this time.

Our stock is a penny stock and, as a result, our stockholders are more limited in their ability to sell their stock.

The Securities and Exchange Commission has adopted rules that regulate broker-dealer practices in connection with the sale of penny stocks, or low-priced securities other than securities registered on certain exchanges, to persons other than established customers and institutional accredited investors. Because our securities constitute penny stocks within the meaning of the rules, the rules apply to us and our securities. For transactions covered by these rules, prior to effecting a transaction in a penny stock, a broker-dealer must, among other things: (a) make a special suitability determination for the purchaser; (b) deliver a standardized risk disclosure document to the customer; (c) receive written acknowledgement of the receipt

of the disclosure statement; (d) provide to customers current bids and offers, including the number of shares to which such bid and offer prices apply; (e) disclose to customers the broker-dealer and sales representation compensation; and (f) receive the purchaser's written consent to the transaction prior to the sale. These suitability requirements and disclosure requirements may have the effect of reducing the trading activity in the secondary market for our stock.

Volatility in the market price of our common stock.

The market price of our common stock could fluctuate substantially in the future in response to a number of factors, including the following:

- our quarterly operating results or the operating results of other companies in the steel industry;
- changes in general conditions in the economy, the financial markets or the steel industry;
- announcements by us or our competitors of significant acquisitions; and
- increases in raw materials and other costs.

In addition, in recent years the stock market has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated to their operating performance. These broad market fluctuations may materially adversely affect our stock price, regardless of our operating results.

We do not currently plan to pay dividends to holders of our common stock.

We do not currently anticipate paying cash dividends to the holders of our common stock. Accordingly, holders of our common stock must rely upon price appreciation as the sole method to realize a gain on their investment. There can be no assurances that the price of our common stock will ever appreciate in value.

The anti-takeover provisions of our stockholders rights plan may have the effect of delaying or preventing beneficial takeover bids by third parties.

We have a stockholder rights plan (the "Rights Plan") designed to preserve the value of certain tax assets primarily associated with our NOLs and built in losses under Section 382. At December 31, 2011, the Company had approximately $259 million in net operating losses and the use of such losses to offset federal income tax would be limited, if the Company experiences an "ownership change" under Section 382. This would occur if stockholders owning (or deemed under Section 382 to own) 5% or more of the Company's stock by value increase their collective ownership of the aggregate amount of the Company's stock by more than 50 percentage points over a defined period of time. The Rights Plan was adopted to reduce the likelihood of an "ownership change" occurring as defined by Section 382.

In connection with the Rights Plan, the Company declared a dividend of one preferred share purchase right for each share of its common stock outstanding as of the close of business on May 21, 2009. Pursuant to the Rights Plan, any stockholder or group that acquires beneficial ownership of 4.9 percent or more of the Company's outstanding stock (an "Acquiring Person") without the approval of the Company's Board would be subjected to significant dilution of its holdings. Any existing stockholder holding 4.9% or more of the Company's stock will not be considered an Acquiring Person unless such stockholder acquires additional stock of the Company; provided, however, that existing stockholders actually known to the Company to hold 4.9% or more of its stock as of April 30, 2009 are permitted to purchase up to an additional 5% of the Company's stock without triggering the Rights Plan. In addition, in its discretion, the Board may exempt certain persons whose acquisition of securities is determined by the Board not to jeopardize the Company's deferred tax assets and may also exempt certain transactions. The Rights Plan will continue in effect until May 13, 2019, unless it is terminated or redeemed earlier by the Board.

While the Rights Plan is intended to protect our NOLs and built-in losses under Section 382, it may also have the effect of delaying or preventing beneficial takeover bids by third parties.

ITEM 8. EXHIBITS

A list of exhibits required to be filed as part of this report is set forth in the Index to Exhibits, which immediately precedes such exhibits, and is incorporated herein by reference.

PART E

EXHIBITS

Exhibit No.	Description
1*	First Amendment to Restated Certificate of Incorporation of ALJ Regional Holdings, Inc. as filed with the Secretary of State of the State of Delaware on June 1, 2010.
2	Restated Certificate of Incorporation of ALJ Regional Holdings, Inc. as filed with the Secretary of State of the State of Delaware on June 16, 2009 (incorporated by reference to Exhibit 1 to the Company's Quarterly Report for the quarter ended June 30, 2009 available at www.pinksheets.com.).
3	Certificate of Ownership and Merger of YouthStream Media Networks, Inc. as filed with the Secretary of State of the State of Delaware on October 23, 2006. (incorporated by reference to Exhibit 2 to the Company's Annual Report available at www.pinksheets.com posted on January 15, 2007)
4	Restated Bylaws of ALJ Regional Holdings, Inc. (incorporated by reference to Exhibit 7 to the Company's Quarterly Report for the quarter ended March 31, 2009 available at www.pinksheets.com.)
5	YouthStream Media Networks, Inc. 2000 Stock Incentive Plan (incorporated by reference to Exhibit 10.28 to YouthStream's Form 10-KSB filed with the SEC for the fiscal year ended June 30, 1999).
6**	First Amendment to the Amended and Restated Management Services Agreement by and between KES Acquisition Company and Pinnacle Steel, LLC dated February 23, 2007.
7	Amended and Restated Management Services Agreement, February 28, 2005, by and between KES Acquisition Company, LLC and Pinnacle Steel, LLC (incorporated by reference to Exhibit 10.83 to YouthStream's Form 8-K, filed with the SEC on March 14, 2005).
8**	Amended and Restated Tax Sharing Agreement by and between the ALJ Regional Holdings, Inc. and KES Acquisition Company.
9	Rights Agreement dated May 13, 2009 by and between ALJ Regional Holdings, Inc. and American Stock Transfer and Trust Company, LLC (incorporated by reference to Annex B to ALJ Regional Holdings proxy statement dated May 15, 2009 available at www.pinksheets.com).
10****	Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated as of September 30, 2011, by and among KES, the financial institutions from time to time a party thereto and PNC as a lender and agent for the lenders.
11*	Second Amendment to the Amended and Restated Management Services Agreement by and between KES Acquisition Company and Pinnacle Steel, LLC dated May 28, 2010.
12****	Third Amendment to the Amended and Restated Management Services Agreement by and between KES Acquisition Company and Pinnacle Steel, LLC dated September 30, 2011.

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*	Filed with the Company's Quarterly Report for the period ended June 30, 2010.
**	Filed with the Company's Quarterly Report for the period ended March 31, 2007.
***	Filed with the Company's Quarterly Report for the period ended June 30, 2009.
****	Filed with the Company's Annual Report for the period ended September 30, 2011.

ITEM 9. CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

Certification of the Chief Executive Officer

I, John Scheel, hereby certify that:

1. I have reviewed this quarterly disclosure statement of ALJ Regional Holdings, Inc. for the fiscal quarter ended December 31, 2011;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements and other financial information included or incorporated by reference in this disclosure statement, fairly present, in all material respects, the financial position, results of operations and cash flows of ALJ Regional Holdings, Inc., as of, and for, the fiscal quarter ended December 31, 2011.

Date: February 14, 2012

/S/ John Scheel
John Scheel,
Chief Executive Officer

Certification of the Chief Financial Officer

I, T. Robert Christ, hereby certify that:

1. I have reviewed this quarterly disclosure statement of ALJ Regional Holdings, Inc. for the fiscal quarter ended December 31, 2011;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements and other financial information included or incorporated by reference in this disclosure statement, fairly present, in all material respects, the financial position, results of operations and cash flows of ALJ Regional Holdings, Inc., as of, and for, the fiscal quarter ended December 31, 2011.

Date: February 14, 2012

/S/ T. Robert Christ
T. Robert Christ,
Chief Financial Officer

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ALJ REGIONAL HOLDINGS, INC.

244 Madison Avenue
PMB #358
New York, New York 10016

(212) 883-0083

Quarterly Report for the
Period Ended
March 31, 2012

ALJ REGIONAL HOLDINGS, INC.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Statements in this report (the "Report") regarding financial and operating performance and other statements that are not historical facts, including, among others, statements regarding the Company's ability to fund its operations, service indebtedness, improve operating efficiencies, benefit from financial and corporate restructuring, offset future income against net operating loss carryovers ("NOLs") and use its rights plan to preserve NOLs, constitute forward-looking statements. In general, you can identify forward-looking statements by the presence of words such as "anticipate," "believe," "estimate," "expect, "intend," "may," "plan," "predict," "project," "will," and similar expressions.

Forward-looking statements are based on reasonable expectations and are subject to risks and uncertainties. Actual results will differ, perhaps materially, from those set forth or implied by such forward-looking statements due to a variety of factors, including, among others:

- Economic or other cyclical changes in market supply and demand for steel;
- Monetary or trade policy affecting the price, import or export of steel;
- Price competition resulting from excess steelmaking capacity in the market, imports of low-priced steel from overseas or consolidation of steelmaking operations;
- Changes in the availability or cost of raw materials, supplies and energy, including steel scrap, electricity, natural gas or other utilities;
- Unanticipated equipment failures and plant outages or extraordinary operating expenses;
- Margin compression resulting from the inability to pass expense increases or surcharges to customers;
- Loss of business from one or more major customers or end-users;
- Labor unrest, work stoppages or strikes involving the steel industry in general and in particular the workforce of the Company or those of its important suppliers or customers;
- Adverse weather conditions affecting the Company's operations or the operations of its important suppliers or customers;
- The impact of, or changes in, environmental laws or in the application of other legal or regulatory requirements upon the Company's production processes or costs of production or upon those of its suppliers or customers, including actions by government agencies, such as the U.S. Environmental Protection Agency or the Kentucky Department for Environmental Protection;
- Private or governmental liability claims or litigation, or the impact of any adverse outcome of any litigation on the adequacy of the Company's reserves, the availability or adequacy of its insurance coverage, its financial well-being or its business and assets;
- Changes in interest rates or other borrowing costs, or the effect of existing loan covenants or restrictions upon the cost or availability of credit to fund operations or take advantage of other business opportunities;
- Changes in the Company's business strategies or development plans which it may adopt or which may be brought about in response to actions by its suppliers or customers, and any difficulty or inability to successfully consummate or implement as planned any planned or potential projects, acquisitions, joint ventures or strategic alliances; and
- Changes in tax laws or regulations regarding the use and/or preservation of NOLs.

The Company also is subject to general business risks, including its success in continuing to settle the Company's outstanding obligations from its prior business activities, results of tax audits, the Company's ability to retain and attract key employees, acts of war or global terrorism, and unexpected natural disasters.

Any forward-looking statements included in this Report are made as of the date hereof and based on information available to the Company as of the date hereof. Subject to applicable law, the Company assumes no obligation to update any forward-looking statements.

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ITEM 1. EXACT NAME OF THE ISSUER AND THE ADDRESS OF ITS PRINCIPAL EXECUTIVE OFFICES

ALJ Regional Holdings, Inc. ("ALJ" or the "Company") has its principal offices at:

244 Madison Avenue, PMB 358
New York, NY 10016
Phone: (212) 883-0083
Fax: (606) 929-1261

References to the "Company," "we," "us" and "our" are to the consolidated operations of ALJ, including the operations of its subsidiaries, except to the extent the context is intended to refer only to ALJ. The Company was originally incorporated in the State of Delaware under the name Nuparent, Inc. on June 22, 1999. The Company's name was changed to YouthStream Media Networks, Inc. on June 24, 1999 and that name was used through October 23, 2006. The Company's name was changed to ALJ Regional Holdings, Inc. on October 23, 2006.

The Company's investor relations contact is Jess Ravich, the Chairman of the Board. Mr. Ravich can be reached at (310) 789-5741.

The Company's transfer agent is American Stock Transfer & Trust Company, LLC whose address and phone number are:

American Stock Transfer & Trust Company, LLC
Operations Center
6201 15th Avenue
Brooklyn, NY 11219
(718) 921-8293

ITEM 2. SHARES OUTSTANDING

The Company has only two classes of securities; common stock and preferred stock, the details of which are disclosed in the table below.

	Common Stock Period End Date			Preferred Stock Period End Date		
	March 31, 2012	September 30, 2011	September 30, 2010	March 31, 2012	September 30, 2011	September 30, 2010
Number of Shares Authorized	100,000,000	100,000,000	100,000,000	5,000,000	5,000,000	5,000,000
Number of Shares Outstanding	56,934,040	56,934,040	49,729,574	0	0	374,556

Of the 5,000,000 shares of preferred stock authorized, 1,000,000 shares have been designated as Series A Preferred Stock, none of which are currently issued and outstanding and 550,000 shares have been designated as Series B Preferred Stock, none of which are currently issued and outstanding.

ITEM 3. INTERIM FINANCIAL STATEMENTS

ALJ REGIONAL HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	March 31, 2012	September 30, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,836,125	$ 1,282,228
Accounts receivable, less allowance for doubtful accounts of $736,152 at March 31, 2012 and $703,532 at September 30, 2011	14,427,556	14,522,393
Inventories	27,919,269	28,351,131
Prepaid expenses and other current assets	679,751	1,310,364
Deferred taxes	3,059,567	3,059,567
Total current assets	47,922,268	48,525,683
Property, plant and equipment	5,107,203	5,107,203
Less accumulated depreciation and amortization	(2,754,291)	(2,573,958)
Property, plant and equipment, net	2,352,912	2,533,245
Other assets:		
Deposits	924,460	924,460
Deferred loan costs, net of amortization	343,308	398,719
Investment in Bellator	90,228	90,228
Total other assets	1,357,996	1,413,407
Total assets	$ 51,633,176	$ 52,472,335

(continued)

ALJ REGIONAL HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(continued)

	March 31, 2012	September 30, 2011
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current liabilities:		
Accounts payable	$ 10,172,654	$ 9,888,998
Accrued expenses	2,890,175	3,378,535
Accrued interest payable – 8% subordinated term loans	793,809	1,476,233
Income taxes payable	563,485	867,300
Current portion of term loans	2,000,000	2,535,208
Current portion of capital lease obligation	88,581	171,792
Liabilities related to discontinued operations	2,984,660	2,984,660
Total current liabilities	$ 19,493,364	$ 21,302,726
Non-current liabilities:		
Secured line of credit	13,352,753	16,725,304
8% subordinated term loans	18,998,210	19,832,003
Term loans, less current portion	3,000,000	4,000,000
Series A Preferred stock of subsidiary subject to mandatory redemption; 13% cumulative, non-convertible, redeemable preferred stock, mandatory redemption and liquidation value of $1,000 per share; 5,936 shares issued and outstanding at March 31, 2012 plus cumulative dividends of $5,480,755, 5,936 shares issued and outstanding at September 30, 2011 plus cumulative dividends of $5,093,760	11,416,755	11,029,760
Deferred tax liability	383,158	383,158
Minority interest – related parties	6,722,460	5,775,831
Total liabilities	$ 73,366,700	$ 79,048,782
Commitments and contingencies		
Stockholders' deficiency:		
Common stock, $0.01 par value; authorized - 100,000,000 shares; 56,934,040 issued and outstanding at March 31, 2012 and September 30, 2011	569,340	569,340
Additional paid-in capital	288,377,764	288,365,584
Accumulated deficit	(309,851,052)	(314,681,795)
Treasury stock – 607,500 shares, at cost	(829,576)	(829,576)
Total stockholders' deficiency	(21,733,524)	(26,576,447)
Total liabilities and stockholders' deficiency	$ 51,633,176	52,472,335

See accompanying notes to condensed consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2012	**2011**	**2012**	**2011**
NET SALES	$44,384,069	$40,292,498	$83,278,959	$72,966,674
COSTS AND EXPENSES				
Cost of sales	37,088,827	33,986,987	70,492,276	62,828,309
Selling	577,269	480,119	1,114,728	934,271
General and administrative	2,020,353	1,815,204	3,715,837	3,192,639
Total cost of operations	39,686,449	36,282,310	75,322,841	66,955,219
Income from operations	4,697,620	4,010,188	7,956,118	6,011,455
OTHER INCOME (EXPENSE)				
Interest income	2,899	36,509	14,292	37,802
Interest expense:				
13% Series A Preferred Stock	(192,440)	(190,325)	(386,995)	(384,880)
Subordinated loans payable	(388,775)	(615,407)	(793,809)	(1,244,490)
Other	(241,720)	(269,737)	(609,314)	(579,238)
Other income (expense), net	(11,550)	4,300	4,504	27,559
Gain on extinguishment of debt	-	147,941	-	147,941
Total other income (expense)	(831,586)	(886,719)	(1,771,322)	(1,995,306)
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTEREST	3,866,034	3,123,469	6,184,796	4,016,149
Income taxes	(121,472)	(366,869)	(407,425)	(471,767)
INCOME (LOSS) BEFORE MINORITY INTEREST	3,744,562	2,756,600	5,777,371	3,544,382
MINORITY INTEREST – related parties	(637,585)	(466,672)	(946,628)	(591,944)
NET INCOME (LOSS)	3,106,977	2,289,928	4,830,743	2,952,438
NET INCOME (LOSS) PER COMMON SHARE -				
Basic	$0.05	$0.05	$0.08	$0.06
Dilutive	$0.05	$0.05	$0.08	$0.06
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
Basic	56,934,040	49,729,574	56,934,040	49,729,574
Dilutive	59,434,040	50,229,574	59,434,040	50,029,574

See accompanying notes to condensed consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY
(UNAUDITED)
SIX MONTHS ENDED MARCH 31, 2012

	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Treasury Stock	Total
Balances at September 30, 2011	56,934,040	$ 569,340	$ 288,365,584	$ (314,681,795)	$ (829,576)	$ (26,576,447)
Share-based compensation:						
Restricted Stock			12,180			12,180
Net income				4,830,743		4,830,743
Balances at March 31, 2012	56,934,040	$ 569,340	$ 288,377,764	$ (309,851,052)	$ (829,576)	$ (21,733,524)

See accompanying notes to condensed consolidated financial statements

ALJ REGIONAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended March 31,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 4,830,743	$ 2,952,438
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Net change in liabilities related to discontinued operations	--	--
Depreciation and amortization	180,333	193,583
Stock-based compensation	12,180	108,042
Gain on extinguishment of debt	--	(147,941)
Amortization of deferred loan costs	55,411	176,712
Provision for bad debts	36,621	121,695
Minority interest – related parties	946,629	591,945
Changes in operating assets and liabilities:		
Decrease (increase) in -		
Accounts receivable, net	58,216	(4,487,441)
Inventories	431,862	(5,142,011)
Income taxes receivable	--	--
Prepaid expenses and other receivables	630,613	963,741
Deposits	--	--
Increase (decrease) in -		
Accounts payable	283,656	4,551,916
Accrued expenses	(488,360)	770,567
Income taxes payable	(303,815)	367,189
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	6,674,089	1,020,435
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of capital lease equipment	--	--
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	--	--
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments under equipment capital lease obligation	(83,211)	(73,845)
Principal repayments on 8% subordinated loans	(833,793)	--
Accrued interest on 8% subordinated loans	793,809	1,229,214
Repayments of interest on 8% subordinated loans	(1,476,233)	(1,075,091)
Partial repayment on 4% Preferred Stock	--	(277,600)
Accrued dividends on 4% Preferred Stock	--	28,543
Accrued dividends on 13% Preferred Stock	386,995	384,880
Repayments on Lake Forest term note payable	(535,208)	(533,275)
Repayments on PNC term loans	(1,000,000)	(1,514,714)
Net proceeds (repayments) under secured line of credit	(3,372,551)	909,915
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(6,120,192)	(921,973)
NET CASH PROVIDED BY (USED IN) OPERATING, INVESTING AND FINANCING ACTIVITIES	553,897	98,462
CASH AND CASH EQUIVALENTS		
Net increase (decrease)	553,897	98,462
Balance at beginning of period	1,282,228	391,470
Balance at end of period	1,836,125	489,932
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for -		
Interest	2,300,609	1,357,200
Income taxes	271,944	104,577

See accompanying notes to condensed consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
MARCH 31, 2012

1. Organization and Basis of Presentation

Basis of Presentation

The accompanying consolidated financial statements include the accounts of ALJ Regional Holdings, Inc. ("ALJ" or the "Company"), and its direct and indirect wholly and majority-owned subsidiaries. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America. All inter-company items and transactions have been eliminated in consolidation.

Commencing March 1, 2005, the Company has included the operations of a steel mini-mill (the "Mill") owned and operated by its majority-owned subsidiary, KES Acquisition Company, a Delaware corporation fka YouthStream Acquisition Corp ("KES"), in its consolidated financial statements (see Note 2 to Consolidated Financial Statements), which represents the only business segment in which the Company currently operates.

The accompanying condensed consolidated financial statements are unaudited, but in the opinion of Company management, contain all adjustments, which include normal recurring accruals, necessary to present fairly the financial position at March 31, 2012 and September 30, 2011, the results of operations for the six months ended March 31, 2012 and 2011, and the cash flows for the six months ended March 31, 2012 and 2011.

Certain information and footnote disclosures normally included in financial statements that have been prepared in accordance with generally accepted accounting principles have been condensed or omitted, although management of the Company believes that the disclosures contained in these financial statements are adequate to make the information presented therein not misleading.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The results of operations for the six months ended March 31, 2012 are not necessarily indicative of the results of operations to be expected for the full fiscal year ending September 30, 2012.

Liquidity and Capital Resources

The Company recognized net income of $4.8 million for the six month period ended March 31, 2012 and generated a positive cash flow from operating activities of $6.7 million for the six months ended March 31, 2012. The Company used $6.1 million in financing activities and had an accumulated deficit of $309.9 million and a stockholders' deficiency of $21.7 million at March 31, 2012.

The Company recognized net income of $11.4 million for the year ended September 30, 2011 and generated a positive cash flow from operating activities of $8.2 million for the year ended September 30, 2011. The Company used $7.3 million in operating activities and had an accumulated deficit of $314.7 million and a stockholders' deficiency of $26.6 million at September 30, 2011. The Mill relies on cash flows from operations and a secured credit facility with PNC Bank, National Association to fund its operations.

Based on its current level of operations, the Company believes that its current cash resources provided by operations and the Credit Facility (as defined below) will be adequate to fund its operations through March 31, 2013. However, to the extent the Company's estimates are inaccurate or its assumptions are incorrect,

the Company may not have sufficient cash resources to fund its operations. In such event, the Company may have to seek additional financing for the business.

The Company's management may also consider various strategic alternatives in the future, including the acquisition of new business opportunities, which may be from related or unrelated parties. However, there can be no assurances that such efforts will ultimately be successful. The Company may finance any acquisitions through a combination of debt and/or the issuance of equity securities.

2. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

ALJ is a holding company, whose primary asset is a majority share of the outstanding common stock and 100% of the voting securities of KES, the owner and operator of the Mill, which manufactures and sells steel bar flats.

Cash and Cash Equivalents

Cash and equivalents include all cash, demand deposits and money market accounts with original maturities of three months or less.

Accounts Receivable

The Company grants credit to its customers generally in the form of short-term trade accounts receivable. Management evaluates the credit risk of its customers utilizing historical data and estimates of future performance.

Accounts receivable are stated at the amount management expects to collect from outstanding balances. When appropriate, management provides for probable uncollectible amounts through a provision for doubtful accounts and an adjustment to a valuation allowance. Management reviews and adjusts this allowance periodically based on the aging of accounts receivable balances, historical write-off experience, customer concentrations, customer creditworthiness and current industry and economic trends. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Inventory

Inventories are comprised of raw materials (consisting of alloys and scrap metal), semi-finished goods (billets) and finished goods. Inventory costs include material, labor and manufacturing overhead. Inventories are valued at the lower of average cost or market. The average cost of the billets and scrap metal is adjusted periodically to reflect current changes in cost inputs. The market value of billet and scrap metal inventories is determined using replacement costs.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Expenditures for routine maintenance and repairs are charged to expense as incurred. Expenditures for equipment renewals and improvements, which extend the useful life of an asset, are capitalized. Certain equipment held under capital lease is classified as property, plant and equipment, and the related obligation is recorded as a liability. Lease amortization is included in depreciation expense.

Depreciation is provided on the straight-line method over the estimated useful lives of the assets, generally 3 to 20 years for machinery and equipment, and 20 to 40 years for buildings and improvements. Equipment under capital lease is amortized using the straight-line method over the primary lease term.

Revenue Recognition

The Company recognizes revenue when there is persuasive evidence that an arrangement exists, delivery of the product has occurred and title has passed, the selling price is both fixed and determinable, and collectibility is reasonably assured, all of which generally occur either upon shipment of the Company's product or delivery of the product to the destination specified by the customer.

Stock-Based Compensation

The Company recognizes compensation expense for its equity awards on a straight-line basis over the requisite service period of the award based on the estimated portion of the award that is expected to vest and applies estimated forfeiture rates based on analyses of historical data, including termination patterns and other factors. The Company uses the quoted closing market price of its common stock on the grant date to measure the fair value of restricted stock awards and the Black-Scholes option pricing model to measure the fair value of stock option awards. The expected volatility is based on historical volatilities of the Company's common stock over the most recent period commensurate with the estimated expected term of the awards. The expected term of an award is equal to the midpoint between the vesting date and the end of the contractual term of the award. The risk-free interest rate is based on the rate on U.S. Treasury securities with maturities consistent with the estimated expected term of the awards. The Company has not paid dividends and does not anticipate paying a cash dividend in the foreseeable future and, accordingly, uses an expected dividend yield of zero.

Income Taxes

The Company uses the asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax-credit carry-forwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amount of assets and liabilities and their tax bases.

The Company's judgments relative to the current provision for income taxes take into account current tax laws, the Company's interpretation of current tax laws and possible outcomes of current and future audits conducted by tax authorities. The Company files income tax returns in the U.S. federal jurisdictions and various state jurisdictions and is subject to U.S. federal tax and state tax examinations for years ranging from 2008 to 2011. The Company's judgments relative to the value of deferred tax assets and liabilities take into account estimates of the amount of future taxable income. Actual operating results and the underlying amount of income in future years could render the Company's current estimates of recoverable net deferred taxes inaccurate. Any of the judgments mentioned above could cause the Company's actual income tax obligations to differ from its estimates, thus materially impacting the Company's financial position and results of operations.

If the Company takes a recognized tax position or has taken a recognized tax position on a tax return that more likely than not would be sustained upon examination by tax authorities, then the Company will recognize the potential asset or liability in the financial statements. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Management believes that the Company has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accrual for tax liabilities are adequate for all open years on assessment of many factors including past experience and interpretation of tax law applied to the facts of each matter.

Concentrations

The Company maintains its cash balances with a number of financial institutions. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At times these balances are in excess of the FDIC insured balances.

For the six month period ending March 31, 2012, the Company had three suppliers that accounted for approximately 59% of raw materials purchases, of which approximately $2.2 million was included in accounts payable at March 31, 2012. For the six month period ending March 31, 2012, the Company had three customers that accounted for approximately 22% of net sales, of which approximately $4.7 million was included in accounts receivable at March 31, 2012.

Earnings Per Share

Basic net income or loss per share is computed by dividing net income or loss by the weighted average number of common shares outstanding for the period. Nonvested shares of restricted stock are not included in the computation of basic net income per share until vested. Diluted net income per share includes the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Diluted net income per share also includes the dilutive effect of nonvested shares of restricted stock.

The following table summarizes the basic and diluted weighted average shares for the three and six months ending March 31, 2012 and 2011:

	Three Months Ended March 31,		Six Months Ended March 31,	
	2012	2011	2012	2011
Weighted average shares outstanding, basic	56,934,040	49,729,574	56,934,040	49,729,574
Dilutive effect of:				
Options to purchase common stock	2,500,000	500,000	2,500,000	300,000
Warrants to purchase common stock	--	--	--	--
Weighted average shares outstanding, diluted	59,434,040	50,229,574	59,434,040	50,029,574

3. Acquisition of Steel Mini-Mill

In September 2003, ALJ invested $125,000 to acquire a 1.00% membership interest in KES Holdings, LLC, a Delaware limited liability company, which was formed to acquire certain assets of Kentucky Electric Steel, Inc., a Delaware corporation, consisting of the Mill pursuant to Section 363 of the United States Bankruptcy Code through its subsidiary, KES Acquisition Company, LLC, a Delaware limited liability company and predecessor of KES ("KES Acquisition"). The Mill had ceased production on or about December 16, 2002 and its prior owner had filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code on February 5, 2003. The Mill had been in operation for approximately forty years and was refurbished by KES Acquisition subsequent to its acquisition. The refurbished Mill has been generating revenues since late January 2004. ALJ completed its acquisition of the Mill in March 2005.

4. Recent Developments

None.

5. Related Party Transactions

None.

6. Discontinued Operations

As of March 31, 2012 and September 30, 2011, the Company maintained an estimated accrual of liabilities associated with the discontinued operations of $2,984,660 and $2,984,660, respectively, remaining from its

discontinued businesses. The accrued liabilities consist primarily of severance, lease payments, tax payments and other costs related to the operations of the discontinued businesses.

7. Accounts Receivable

Accounts Receivable is summarized as follows at March 31, 2012 and September 30, 2011:

	March 31, 2012 Unaudited	September 30, 2011 Unaudited
Accounts Receivable	$ 15,163,708	$ 15,225,925
Less: Allowance for doubtful accounts	(736,152)	(703,532)
Total	$ 14,427,556	$ 14,522,393

8. Inventories

Inventories are comprised of the following at March 31, 2012 and September 30, 2011:

	March 31, 2012 Unaudited	September 30, 2011 Unaudited
Raw materials	$ 2,782,653	$ 2,739,663
Semi-finished goods	15,233,904	14,317,669
Finished goods	9,902,712	11,293,799
Total	$ 27,919,269	$ 28,351,131

Inventories are comprised of raw materials, semi-finished goods and finished goods. Inventory costs include material, labor and manufacturing overhead. Inventories are valued at the lower of average cost or market. The average cost of the billets and scrap metal is adjusted periodically to reflect current changes in cost inputs.

9. Property, Plant and Equipment

Property, plant and equipment consisted of the following at March 31, 2012 and September 30, 2011:

	March 31, 2012 Unaudited	September 30, 2011 Unaudited
Land	$ 142,498	$ 142,498
Buildings and improvements	572,497	572,497
Machinery and equipment	4,392,208	4,392,208
Total	5,107,203	5,107,203
Less: Accumulated depreciation and amortization	(2,754,291)	(2,573,958)
	2,352,912	2,533,245

Depreciation and amortization expense for the six months ended March 31, 2012 and 2011 was $180,333 and $193,583.

10. Long-Term Debt

Secured Credit Line and Restructure of Debt Obligations

On September 30, 2011, KES entered into the Amended and Restated Revolving Credit, Term Loan and Security Agreement (the “Loan Agreement”) with PNC Bank, National Association. The Loan Agreement provides for an asset-based revolving credit line of $30 million (the “Revolver”) and a term loan of $6

million (the “Term Loan,” and together with the Revolver, the “Credit Facility”), which is an increase from KES’ prior credit line of $23 million and term loan of $4 million. The Term Loan and the Revolver bear interest at variable rates based on LIBOR or the base commercial lending rate of PNC as publicly announced from time to time. As of March 31, 2012 and September 30, 2011, the outstanding balance on the Term Loan was $5.0 million and $6.0 million, respectively, with an interest rate of 6.50% and 8.00%, respectively. As of March 31, 2012, the outstanding balance on the Revolver was $13.4 million, of which $1.9 million had an interest rate of 6.00% and $11.5 million had an interest rate of 4.5%. As of September 30, 2011 the outstanding balance on the Revolver was $16.7 million with an interest rate of 6.00%. The Credit Facility is secured by all of the assets of KES and contains customary covenants, including financial covenants requiring KES to maintain certain fixed charge coverage and leverage ratios and has been presented as a non-current liability in the balance sheet. In addition, the Credit Facility contains an event of default if Jess Ravich is no longer on ALJ’s Board of Directors. As of March 31, 2012, KES was in compliance with all specified covenants. In the event that KES is not in compliance with any financial covenants, KES intends to seek a waiver of any default from the lender, and if no such waiver is received, the lender would have the right to accelerate the maturity of the Credit Facility at that time. The Term Loan is to be repaid in equal principal payments of $500,000 per quarter over twelve quarters plus certain mandatory prepayments. The Revolver expires on September 30, 2014.

Mr. Ravich, together with two trusts including a trust related to Mr. Ravich, collectively guaranteed the Term Loan. KES paid a one-time fee of $200,000 to the guarantors. The agreement with the guarantors provides that in the event that Mr. Ravich is no longer a director of ALJ, other than by voluntary resignation, then a guaranty premium fee of $500,000 will be paid to the Ravich Children Permanent Trust of 1989. The terms of the guaranty and guaranty fee were approved by the independent members of each of the ALJ and KES Boards of Directors.

During the six months ending March 31, 2012, the Company also repaid a loan payable to Lake Forest Bank and Trust Company in the amount of $535,208. The interest rate on the loan was 3.75%. There are currently no amounts due under this loan. As of September 30, 2011, the amount outstanding on the loan was $535,208.

8% Subordinated Loans

Subordinated loans (the “Subordinated Loans”) consist of a series of loans due from KES under the Subordinated Financing Agreement dated July 20, 2009 by and among KES, the lenders party thereto and Ableco, L.L.C. (the “Subordinated Financing Agreement”), which replaced a series of subordinated secured promissory notes dated February 23, 2007, which were originally issued in March 2005 in connection with ALJ’s acquisition of KES. The Subordinated Loans are subordinate to the Credit Facility. The Subordinated Loans bear interest at 8% per annum, with interest payable annually. So long as the Credit Facility remains outstanding, the Company may, at its discretion, capitalize unpaid accrued interest into the outstanding Subordinated Loan principal. Principal on the Subordinated Loans is due and payable upon the earlier to occur of (i) an event of default under the Subordinated Financing Agreement, which includes an event of default under the Credit Facility or (ii) February 22, 2017. At March 31, 2012 and September 30, 2011, the principal balance outstanding on the Subordinated Loans was $19.0 million and $19.8 million, respectively. Accrued interest on the Subordinated Loans as of March 31, 2012 and September 30, 2011 was $793,809 and $1.6 million, respectively. The Subordinated Loans are secured by a second priority security interest in all of KES’ assets.

The subordinated lenders include affiliates of Ableco, L.L.C., ALJ and three directors who currently serve on ALJ’s Board of Directors. Related parties hold Subordinated Loans with an aggregate principal balance at March 31, 2012 and September 30, 2011 of $9.5 million and $10.0 million, respectively and accrued interest at March 31, 2012 and September 30, 2011 of $395,179 and $1.2 million, respectively.

13% Series A Preferred Stock

In connection with the acquisition of the mill and pursuant to its articles of incorporation, KES issued 25,000 shares of its 13% Series A Preferred Stock with the following rights, preferences and privileges:

a. Dividend Rights. The holders of the 13% Series A Preferred Stock are entitled to receive cumulative dividends in cash at the rate of 13% per year on the face amount of $1,000 per share payable concurrent with the redemption of the 13% Series A Preferred Stock. The dividends are payable, when and as declared by KES' Board of Directors, out of funds legally available for that purpose, upon a liquidation event or upon redemption of the 13% Series A Preferred Stock.

b. Liquidation and Redemption. The 13% Series A Preferred Stock contains a liquidation preference equal to $1,000 per share, plus accrued but unpaid dividends, and is redeemable out of, and to the extent of, legally available funds, at a redemption price equal to the sum of $1,000 and all accrued but unpaid dividends on the first anniversary of KES' full and complete repayment of the Subordinated Loans. As of March 31, 2012, the balance outstanding on the 13% Series A Preferred Stock was $5.9 million, related accrued dividends payable were $5.5 million and $1.9 million of the preferred stock was held by related parties. As of September 30, 2011, the balance outstanding on the 13% Series A Preferred Stock was $5.9 million, related accrued dividends payable were $5.1 million and $1.9 million of the preferred stock was held by related parties.

c. Convertibility and Voting Rights. The 13% Series A Preferred Stock is not convertible into any other security of the Company, and the holders thereof have no voting rights except with respect to any proposed changes in the preferences and special rights of such stock or except as granted to holders by law.

Pursuant to SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity," because the 13% Series A Preferred Stock provides for mandatory redemption in cash, it is classified as a long-term liability at the redemption value at March 31, 2012 and September 30, 2011 of $11.4 million and $11.0 million, respectively, including cumulative dividends of $5.5 million and $5.1 million, respectively.

6. Commitments and Contingencies

Operating Commitments

The Mill has been operating under a Management Agreement with Pinnacle Steel, LLC ("Pinnacle") effective through September 30, 2015 (the "Management Agreement") pursuant to which Pinnacle provides, at its expense, employees to serve as the general manager of the Mill and provide oversight and general management of the operations of the Mill. Pursuant to the Management Agreement, Pinnacle receives an annual fee of $700,000, payable monthly, and bonus payments based on 16.6% of defined earnings before interest, taxes, depreciation and amortization ("EBITDA") in excess of $6,000,000 for the fiscal years ending September 30, 2005 and thereafter. In addition, in the event the Management Agreement is terminated following a change of control of KES, an amount equal to two times the management fee payable that would be payable to Pinnacle for the prior 12-month period. Total management fee expense was $1.4 million and $739,562 for the six months ended March 31, 2012 and 2011, respectively. As of March 31, 2012 and September 30, 2011, the balance of accrued management fee was $1.1 million and $2.1 million, respectively.

The Company has various short-term commitments for the purchase of materials, supplies and energy arising in the ordinary course of business which aggregated approximately $5.8 million and $3.6 million at March 31, 2012 and September 30, 2011, respectively.

The Company has a defined contribution pension plan for eligible employees who have completed one month of service and have attained the age of twenty-one. The Company's matching contribution equals 100% of each participant's elective deferral, not to exceed 6% of their eligible compensation. Participants are immediately vested in their deferred compensation and earnings thereon. The participant becomes 100% vested in the Company's matching contributions after one year of credited service. The Company may make other discretionary contributions to be determined on an annual basis. The Company's

contributions charged to operations during the six months ended March 31, 2012 and March 31, 2011 were approximately $233,309 and $218,886, respectively.

7. Income Taxes

For the six months ended March 31, 2012 and 2011, the Company had income tax expense due to taxable income from operations. The Company recognized federal and state income tax expense related to continuing operations for the six months ended March 31, 2012 and 2011 of $407,425 and $471,767, respectively.

Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Company files income tax returns in the U.S. federal jurisdiction and various states. The Company is subject to tax examinations for periods post 2008 by federal, state and local tax authorities for various tax liabilities incurred by the parent entity and its subsidiaries, including any discontinued businesses. The amount of any tax assessments and penalties may be material and may negatively impact the Company's operations. Given the uncertainty in the amount and the difficulty in estimating the probability of the assessments arising from future tax examinations, the Company has not made any accruals for such tax contingencies.

In assessing the realization of deferred tax assets, the Company performed an analysis of the available evidence to determine whether it is more likely than not that some portion or all of the deferred tax assets can be realized. One factor considered is the ability of the Company to generate consistent future taxable income in the periods in which the temporary differences become deductible. The main component of the deferred tax assets is the net operating loss carry-forward. There has been significant positive evidence established by the Company to justify that only a partial valuation allowance is necessary, if any valuation is needed at all. The Company has shown consistent profitability over the past three years. Management also projects continued taxable income. Management believes it will be able to recognize a portion of its Net Operating Loss over the coming years. Management has decided to realize a net deferred tax asset for $2.6 million as of September 30, 2011. A valuation allowance of $88.6 million has been established against the deferred tax asset of $91.3 million as of both March 31, 2012 and September 30, 2011.

Effective October 1, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN48"). FIN48 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Management believes that the Company has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accrual for tax liabilities are adequate for all open years on assessment of many factors including past experience and interpretation of tax law applied to the facts of each matter.

At March 31, 2012, the Company had a net operating loss carry-forward for federal income tax purposes of approximately $259 million that expires from 2020 through 2028. The use of approximately $36 million of this net operating loss in future years may be restricted under Section 382 of the Internal Revenue Code. The realization of the benefits of the net operating losses is dependent upon sufficient taxable income in future years. Lack of consistent future earnings, a change in ownership of the Company, or the application of the alternative minimum tax rules could adversely affect the Company's ability to utilize these net operating losses.

For taxable periods beginning after February 28, 2005, KES is included in the consolidated federal income tax return filed by ALJ as common parent. KES has entered into a Tax Sharing Agreement with ALJ, pursuant to which it has agreed to pay ALJ an amount equal to 50% of its "separate company tax liability,"

subject to compliance with the Credit Facility and Subordinated Financing Agreement. The term "separate company tax liability" is defined as the amount, if any, of the federal income tax liability (including, without limitation, liability for any penalty, fine, additions to tax, interest, minimum tax and other items applicable to such subsidiary in connection with the determination of the subsidiary's tax liability), which such subsidiary would have incurred if its federal income tax liability for the periods during which it is includible in a consolidated federal income tax return with ALJ were determined generally in the same manner in which its separate return liability would have been calculated under Section 1552(a)(2) of the Code.

8. Share-based Compensation and Stock Options

The Company determines the fair value of all stock-based compensation, including stock options and warrants by using the Black-Scholes option-pricing model. Included in the selling, general and administrative expenses for the six months ended March 31, 2012 and 2011, the Company recognized share-based share compensation expense of $12,180 and $15,628, respectively, related to the issuance of restricted stock in prior periods and $0 and $92,414, respectively, related to the issuance of stock options in a prior period.

All share-based payments to employees are recognized in the financial statements as compensation expense based on the fair value on the date of grant. The Black-Scholes model requires input of certain assumptions, including volatility, expected term, risk-free interest rates, and dividend yield. For restricted stock grants issued during the twelve months ended September 30, 2011, the Company computed volatility of 106% and a risk-free interest rate of 0.15%. For restricted stock grants issued during the twelve months ended September 30, 2010, the Company computed volatility of 135% and a risk-free interest rate of 0.32%. Volatility was computed over the most recent period commensurate with the expected term of the options and restricted stock. The risk-free interest rate was based on the rate of U.S. Treasury securities with maturities consistent with the expected term of the options and restricted stock. The Company has not paid cash dividends on its common stock and does not anticipate paying a cash dividend in the foreseeable future and accordingly, uses an expected dividend yield of zero.

The summary of stock option activity for the six months ending March 31, 2012 is as follows:

	Number of Options	Weighted Average Exercise Price per Share	Weighted Average Contractual Term Remaining
Balance outstanding as of September 30, 2011	2,800,000	$0.39	5.5 years
Granted	0	$0.00	
Forfeited	200,000	$0.00	
Balance outstanding as of March 31, 2012	2,600,000	$0.39	5.5 years
Options vested as of March 31, 2012	2,600,000	$0.39	5.5 years

9. Subsequent Events

None.

ITEM 4. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

General Overview

Commencing March 1, 2005, the Company has included the operations of the Mill, which represents the only business segment in which the Company currently operates, in its consolidated financial statements. The Company completed the acquisition of the Mill on March 9, 2005 (see Note 3 to Consolidated Financial Statements).

Critical Accounting Policies and Estimates

The Company prepared its financial statements in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Management periodically evaluates the estimates and judgments made. Management bases its estimates and judgments on historical experience and on various factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates as a result of different assumptions or conditions.

The Company believes that of its significant accounting policies, which are described in Note 2 to the accompanying consolidated financial statements and in the Company's annual report for the year ended September 30, 2011, the following accounting policies involve a greater degree of judgment and complexity. Accordingly, these are the policies the Company believes are the most critical to aid in fully understanding and evaluating its consolidated financial condition and results of operations.

Revenue Recognition

The Company recognizes revenue when there is persuasive evidence that an arrangement exists, delivery of the product has occurred and title has passed, the selling price is both fixed and determinable, and collectability is reasonably assured, all of which generally occur either upon shipment of the Company's product or delivery of the product to the destination specified by the customer.

Accounts Receivable

The Company grants credit to its customers generally in the form of short-term trade accounts receivable. Management evaluates the credit risk of its customers utilizing historical data and estimates of future performance. Accounts receivable are stated at the amount management expects to collect from outstanding balances. When appropriate, management provides for probable uncollectible amounts through a provision for doubtful accounts and an adjustment to a valuation allowance. Management reviews and adjusts this allowance periodically based on the aging of accounts receivable balances, historical write-off experience, customer concentrations, customer creditworthiness, and current industry and economic trends. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Inventories

Inventories are comprised of raw materials, semi-finished goods and finished goods. Inventory costs include material, labor and manufacturing overhead. Inventories are valued at the lower of average cost or market. The average cost of the billets, scrap metal, and finished goods is adjusted monthly.

Income Taxes

The Company uses the asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax-credit carry-forwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amount of assets and liabilities and their tax bases.

The Company's judgments relative to the current provision for income taxes take into account current tax laws, the Company's interpretation of current tax laws and possible outcomes of current and future audits conducted by tax authorities. The Company files income tax returns in the U.S. federal jurisdictions and various state jurisdictions and is subject to U.S. federal tax and state tax examinations for years ranging from 2008 to 2011. The Company's judgments relative to the value of deferred tax assets and liabilities take into account estimates of the amount of future taxable income. Actual operating results and the underlying amount of income in future years could render the Company's current estimates of recoverable

net deferred taxes inaccurate. Any of the judgments mentioned above could cause the Company's actual income tax obligations to differ from its estimates, thus materially impacting the Company's financial position and results of operations.

If the Company takes a recognized tax position or has taken a recognized tax position on a tax return that more likely than not would be sustained upon examination by tax authorities, then the Company will recognize the potential asset or liability in the financial statements. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Management believes that the Company has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accrual for tax liabilities are adequate for all open years based on assessment of many factors, including past experience and interpretation of tax law applied to the facts of each matter.

Results of Operations for the Three and Six Months Ending March 31, 2012 and 2011

The following table sets forth selected unaudited consolidated statements of operations data for each of the periods indicated on an actual basis and as a percentage of total revenues for the respective periods.

	Three Months Ended March 31,				Six Months Ended March 31,			
	2012		2011		2012		2011	
Net Sales	$44,384,069	100%	$40,292,498	100%	$83,278,959	100%	$72,966,674	100%
Cost of sales	37,088,827	84%	33,986,987	84%	70,492,276	85%	62,828,309	86%
Gross Profit	7,295,242	16%	6,305,511	16%	12,786,683	15%	10,138,365	14%
Selling	577,269	1%	480,119	1%	1,114,728	1%	934,271	1%
General and administrative	2,020,353	5%	1,815,204	5%	3,715,837	4%	3,192,639	4%
Income from operations	4,697,620	10%	4,010,188	10%	7,956,118	10%	6,011,455	9%

For the three months ended March 31, 2012 and 2011

Net Sales

Net sales for the three months ending March 31, 2012 were $44.4 million, an increase of $4.1 million, or 10%, over net sales of $40.3 million for the three months ending March 31, 2011. The increase in net sales was primarily attributable to an increase in tons invoiced of 3,031 tons, or 8.3%, and an increase of 1.7% in the average selling price per ton.

Cost of Sales

Cost of sales for the three months ending March 31, 2012 were $37.1 million, an increase of $3.1 million, or 9%, over cost of sales of $34.0 million for the three months ending March 31, 2011. Cost of sales as a percentage of sales for the three months ending March 31, 2012 remained consistent as compared to the three months ending March 31, 2011 at 84%. The increase in cost of sales was primarily due an increase in the shipping volume.

Gross Profit

Gross profit for the three months ending March 31, 2012 was $7.3 million, an increase of $1.0 million, or 16%, over gross profit of $6.3 million for the three months ending March 31, 2011. Gross profit as percentage of sales remained consistent for the three months ending March 31, 2012 as compared to the three months ending March 31, 2011 at 16%. The increase in gross profit was primarily attributable to higher sales volume.

Selling Expenses

Selling expenses for the three months ending March 31, 2012 were $577,269, an increase of $97,150, or 20% over selling expenses for the three months ending March 31, 2011 of $480,119. Selling expenses as a

percentage of sales for the three months ending March 31, 2012 remained consistent as compared to the three months ending March 31, 2011 at 1%. Selling expenses primarily increased as a result of higher commissions related to higher sales revenue.

General and Administrative Expenses

General and administrative expenses for the three months ending March 31, 2012 were $2.0 million, an increase of $205,149, or 11% over general and administrative expenses of $1.8 million for the three months ending March 31, 2011. General and administrative expenses as a percentage of sales for the three months ending March 31, 2012 remained consistent as compared to the three months ending March 31, 2011 at 5%. The increase in general and administrative expenses was primarily attributable to management incentive fees and professional fees.

For the six months ended March 31, 2012 and 2011

Net Sales

Net sales for the six months ending March 31, 2012 were $83.3 million, an increase of $10.3 million, or 14%, over net sales of $73.0 million for the six months ending March 31, 2011. The increase in net sales was primarily attributable to an increase in tons invoiced of 3,771 tons, or 5.3%, and an increase of 8.3% in the average selling price per ton.

Cost of Sales

Cost of sales for the six months ending March 31, 2012 were $70.5 million, an increase of $7.7 million, or 12%, over cost of sales of $62.8 million for the six months ending March 31, 2011. Cost of sales as a percentage of sales for the six months ending March 31, 2012 was 85% as compared to cost of sales as a percentage of sales for the six months ending March 31, 2011 of 86%. The increase in cost of sales was primarily due to price increases in materials, including scrap, alloys and billets and shipping volume.

Gross Profit

Gross profit for the six months ending March 31, 2012 was $12.8 million, an increase of $2.6 million, or 26%, over gross profit of $10.1 million for the six months ending March 31, 2011. Gross profit as percentage of sales for the six months ending March 31, 2012 increased to 15% over gross profit as a percentage of sales for the six months ending March 31, 2011 of 14%. The increase in gross profit was primarily attributable to higher sales.

Selling Expenses

Selling expenses for the six months ending March 31, 2012 were $1.1 million, an increase of $180,457, or 19% over selling expenses for the six months ending March 31, 2011 of $934,271. Selling expenses as a percentage of sales for the six months ending March 31, 2012 remained consistent as compared to the six months ending March 31, 2011 at 1%. Selling expenses primarily increased as a result of higher commissions related to higher sales revenue.

General and Administrative Expenses

General and administrative expenses for the six months ending March 31, 2012 were $3.7 million, an increase of $523,198, or 16% over general and administrative expenses of $3.2 million for the six months ending March 31, 2011. General and administrative expenses as a percentage of sales for the six months ending March 31, 2012 were 5% compared to general and administrative expenses as a percentage of sales for the three months ending March 31, 2011 of 4%. The increase in general and administrative expenses was primarily attributable to management incentive fees and professional fees.

Liquidity and Capital Resources – March 31, 2012

The Company recognized net income of $4.8 million for the six month period ended March 31, 2012 and generated a positive cash flow from operating activities of $6.7 million for the six months ended March 31, 2012. The Company used $6.1 million in financing activities and had an accumulated deficit of $309.9 million and a stockholders' deficiency of $21.7 million at March 31, 2012.

The Company recognized net income of $11.4 million for the year ended September 30, 2011 and generated a positive cash flow from operating activities of $8.2 million for the year ended September 30, 2011. The Company used $7.3 million in operating activities and had an accumulated deficit of $314.7 million and a stockholders' deficiency of $26.6 million at September 30, 2011. The Mill relies on cash flows from operations and a secured credit facility with PNC Bank, National Association to fund its operations.

Based on its current level of operations, the Company believes that its current cash resources provided by operations and the Credit Facility will be adequate to fund its operations through March 31, 2013. However, to the extent that the Company's estimates are inaccurate or its assumptions are incorrect, the Company may not have sufficient cash resources to fund its operations. In such event, the Company may have to seek additional financing for the business.

The Company's management may also consider various strategic alternatives in the future, including the acquisition of new business opportunities, which may be from related or unrelated parties. However, there can be no assurances that such efforts will ultimately be successful. The Company may finance any acquisitions through a combination of debt and/or the issuance of equity securities.

As of March 31, 2012, the balance outstanding on the Credit Facility was $18.4 million ($13.4 million under the Revolver and an aggregate of $5.0 million under the Term Loan).

At March 31, 2012, KES was in compliance with all financial covenants under the Credit Facility based on its financial statements.

To the extent that the Mill generates taxable income in the future, the Tax Sharing Agreement with KES will generate cash payments to ALJ equal to 50% of its "separate company tax liability," subject to compliance with the Credit Facility. The tax sharing payment due to ALJ for the six months ending March 31, 2012 was $186,754. ALJ has approximately $259 million of federal net operating loss carryovers currently available to offset any federal income tax liability of KES in subsequent periods. ALJ expects that its federal net operating loss carryovers will be sufficient to absorb most of any future federal income tax liability of KES.

The long-term economic viability of the Mill and its ability to fund its operations and debt service requirements, including maintaining compliance with various debt covenants and servicing the interest and principal obligations under the Credit Facility and Subordinated Financing Agreement and the dividends and redemption features on the Series A Preferred Stock issued in connection with the acquisition of the Mill, is dependent on various internal and external factors, including the Mill's ability to operate on a sustained basis at 45% or more of its annual capacity of 200,000 tons per year, as currently configured. To the extent that the Mill is not able to maintain an appropriate operating threshold, the ability of the Mill to generate sufficient cash flows to fund its operations and debt service requirements and maintain compliance with various debt covenants may be impaired.

Operating Activities

During the six months ending March 31, 2012, the Company generated $6.7 million from operating activities, primarily attributable to net income of $4.8 million.

Financing Activities

For the six months ending March 31, 2012, the Company used $6.1 million in financing activities primarily attributable to the partial repayment of $3.4 million against the line of credit, partial repayment of $1.0 million against the Term Loan, full repayment of $535,208 against the Lake Forest term loan, interest payments of $1.5 million on the 8% subordinated loans, and $833,793 of principal payments against the 8% subordinated loans.

Principal Commitments

At March 31, 2012, the Company's principal commitments consisted of the following obligations:

	Payments Due by 12 Month Periods Ending March 31, (in thousands)					
Contractual cash obligations	**Total**	**2012**	**2013**	**2014**	**2015**	**Thereafter**
8% Subordinated loans	19,792	---	---	---	---	19,792
Term loan – PNC	5,000	2,000	2,000	1,000	---	---
Revolver – PNC	13,353	---	---	13,353	---	---
Operating leases	1,741	724	724	225	45	23
Capital lease obligation	89	89	---	---	---	---
Management services agreement	2,450	700	700	700	350	---
13% Series A Preferred Stock of subsidiary subject to mandatory redemption, including accrued dividends	11,417	---	---	---	---	11,417
Total contractual cash obligations	$ 53,842	$ 3,513	$ 3,424	$ 15,278	$ 395	$ 31,232

At March 31, 2012, the Company did not have any material commitments for capital expenditures.

At March 31, 2012, the Company has various short-term commitments for the purchase of materials, supplies and energy arising in the ordinary course of business which aggregated approximately $5.8 million.

Off-Balance Sheet Arrangements

The Company does not have any transactions, obligations or relationships that could be considered off-balance sheet arrangements at March 31, 2012.

ITEM 5. LEGAL PROCEEDINGS

From time to time the Company may be involved in litigation arising from its activities. Presently the Company is not involved in any material litigation.

ITEM 6. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 7. OTHER INFORMATION

None.

RISK FACTORS

The following risk factors and other information included in this Report should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks actually occur, our business, financial condition and operating results could be significantly harmed.

Risks Related to Our Business

Payments under our Tax Sharing Agreement are uncertain.

Our subsidiary, KES is included in the consolidated federal income tax return filed by ALJ as the common parent. KES has entered into a Tax Sharing Agreement with ALJ, pursuant to which it has agreed to pay ALJ an amount equal to 50% of its "separate company tax liability" (as defined in the agreement), subject

to compliance with the Credit Facility. Periodic tax sharing payments from KES are currently the sole source of funds distributed to ALJ from the operations of the Mill. The tax sharing payments are necessary to fund corporate overhead at the ALJ level and the receipt of such payments is dependent upon the availability of sufficient cash resources from Mill operations. There can be no assurance that there will be sufficient levels of cash resources generated from Mill operations to support tax sharing payments or to pay our operating expenses.

Our industry is cyclical and prolonged economic declines could have a material adverse effect on our business.

Demand for most of our products is cyclical in nature and sensitive to general economic conditions. Our business supports cyclical industries such as commercial construction, energy, and manufacturing all of which have been adversely impacted by the recent economic downturn. As a result, our results of operations and cash flows may suffer. Because steel mills generally have high fixed costs, reduced volumes result in operating inefficiencies. A further decline in the U.S. economy could materially adversely affect our business, results of operations and financial condition and cash flows.

Our level of production and our sales and earnings are subject to significant fluctuations.

The U.S. steel industry recently experienced a significant economic downturn. This decline led to deterioration in backlog and, therefore, overcapacity in producing mills worldwide.

The price of steel and steel products may fluctuate significantly due to many factors beyond our control. Such fluctuation would directly affect our levels of production, sales and earnings. The domestic steel industry has been highly cyclical in nature, influenced by a combination of factors, including periods of economic growth or recession, strength or weakness of the U.S. dollar, worldwide production capacity, levels of steel imports and applicable tariffs. The demand for steel products is generally affected by macroeconomic fluctuations in the U.S. and the global economies in which steel companies sell their products. We have experienced a drop in demand for our products as a result of the current economic downturn and further economic decline, stagnation, or currency fluctuations could further decrease the demand for products or increase the amount of imports of steel into the U.S., which could negatively impact our sales, margins and profitability. In addition, prolonged weakness in any industries in which we sell our products could materially adversely affect our results of operations and cash flows.

Our business requires maintenance expenditures and may require capital investment which we may be unable to provide.

We require capital for, among other purposes, maintaining the condition of KES' existing equipment and maintaining compliance with environmental laws and regulations. From time to time, KES may also require capital to acquire new equipment. To the extent that cash generated internally and cash available under our credit facility is not sufficient to fund capital requirements, KES will require additional debt and/or equity financing. However, this type of financing may not be available or, if available, may not be on satisfactory terms, particularly given the current credit crisis. Future debt financings, if available, will require the approval of KES' existing lenders and may result in increased interest and amortization expense. In addition, future debt financings by KES may limit our ability to withstand competitive pressures and render us more vulnerable to economic downturns. If KES fails to generate or obtain sufficient additional capital in the future, KES could be forced to reduce or delay capital expenditures, sell assets or restructure or refinance its indebtedness, which in turn would also have an adverse effect on the amount of the tax sharing payments KES makes to us.

Unexpected equipment failures or unanticipated events may lead to production curtailments or shutdowns resulting in lost revenues and increased costs.

Interruptions in production capabilities will inevitably increase production costs and reduce KES' sales and earnings. KES' manufacturing processes depend on critical pieces of steelmaking equipment, such as furnaces, continuous casters and rolling equipment, as well as electrical equipment, such as transformers,

and this equipment may, on occasion, be out of service as a result of unanticipated failures. In the future, KES may experience material plant shutdowns or periods of reduced production as a result of equipment failures. Furthermore, any interruption in production capability may require KES to make large capital expenditures to remedy the situation, which could have a negative effect on our profitability and cash flows. In addition to equipment failures, KES' facilities are also subject to the risk of catastrophic loss due to unanticipated events such as fires, explosions, adverse weather conditions or transportation interruptions. KES maintains business interruption insurance to offset these potential lost revenues or increased costs; however, there can be no assurance that our coverage is sufficient to fully offset the lost revenues or increased costs that we may experience. In addition to the revenue losses, longer-term business disruption could result in a loss of customers. If this were to occur, KES' future sales levels, and therefore profitability and cash flows, could be adversely affected, which in turn would also have an adverse effect on the amount of the tax sharing payments KES makes to us.

Competition from other materials may materially adversely affect our business.

In many applications, steel competes with other materials, such as aluminum, cement, composites, glass, plastic and wood. Increased use of these materials in substitution for steel products could materially adversely affect prices and demand for KES' steel products.

Environmental regulations impose substantial costs and limitations on operations.

KES is subject to various federal, state and local environmental, health and safety laws and regulations, and is required to maintain numerous permits and governmental approvals for operation, concerning issues such as air emissions, wastewater discharges, solid and hazardous waste management and disposal and the investigation and remediation of contamination. These laws and regulations are becoming increasingly stringent. While we believe that KES' facilities are in material compliance with all permits, governmental approvals, applicable environmental laws and regulations, the risks of substantial unanticipated costs and liabilities related to compliance with these permits, governmental approvals, laws and regulations are an inherent part of KES' business. It is possible that future conditions may develop, arise or be discovered that create new environmental compliance or remediation liabilities and costs. While we believe that we can comply with environmental legislation and regulatory requirements and that the costs of compliance have been included within budgeted cost estimates, compliance may prove to be more limiting and costly than anticipated. There can also be no assurance that KES' facilities will continue to operate in accordance with the conditions and restrictions established by the permits or approvals. Similarly, we cannot assure you that the requirements contained in such permits will not change or that KES' facilities will be able to renew or to maintain all permits and approvals required for continued operation of the facilities.

If any substances are found at KES' facilities that are classified by applicable environmental laws, ordinances or regulations as hazardous materials, we could become liable for the investigation and removal of those substances, regardless of their source. Failure to comply with these laws, ordinances or regulations, or any change in the requirements of these laws, ordinances or regulations could result in liabilities, imposition of cleanup liens and fines and large expenditures to bring the facilities into compliance. We may also be subject from time to time to legal proceedings brought by private parties or governmental agencies with respect to environmental matters, including matters involving alleged property damage or personal injury.

The potential presence of radioactive materials in the scrap that we melt in our electric arc furnaces presents significant risks.

The potential presence of radioactive materials in our scrap supply presents significant economic risks. The cost to clean up the contaminated material and the loss of revenue resulting from the loss in production time could be material to our business, results of operations and financial condition. While we have three detection devices at the Mill, radioactive scrap could go undetected. If we fail to detect radioactive material in the scrap we receive, we may incur significant costs to clean up the contamination of our facilities and to dispose of the contaminated material, which could have a material adverse effect on our results of operation and financial condition. In addition, there can be no assurance that we will have sufficient financial

resources to fund the cleanup costs in such event, which could result in a potential suspension or curtailment of operations at the Mill.

The results of our operations are sensitive to volatility in steel prices and changes in the cost of raw materials, particularly scrap steel.

We rely, to a substantial extent, on outside vendors to supply KES with raw materials that are critical to the manufacture of its products. KES acquires its primary raw material, steel scrap, from brokers. Although we believe that the supply of scrap is adequate to operate KES' facilities, we are subject to risks due to the volatility of the purchase prices of this critical raw material.

At any given time, KES may be unable to obtain an adequate supply of scrap at a price and other terms acceptable to it. Additionally, any change in KES' relationship with its scrap brokers could make it more difficult or costly for it to obtain scrap, which could have an adverse impact on our financial condition and results of operations.

If KES' suppliers increase the price of its critical raw materials, it may not be able to locate alternative sources of supply. If KES is unable to obtain adequate and timely deliveries of its required raw materials, KES may be unable to timely and cost effectively manufacture sufficient quantities of its products. This could cause KES to lose sales, incur additional costs and suffer harm to its reputation, financial condition and results of operations, which in turn would also have an adverse effect on the amount of tax sharing payments KES makes to us. These tax sharing payments are ALJ's sole source of cash to pay its operating expenses.

If demand and prices for steel deteriorate, KES' sales may decline and it may be required to recognize losses on the carrying value of its inventory. KES was not required to make any lower of cost or market adjustments to the carrying value of its inventory for the six months ended March 31, 2012.

The availability and cost of electricity and natural gas are subject to volatile market conditions that could adversely affect our business.

Our Mill is a large consumer of electricity and natural gas. KES relies upon third parties for the supply of energy resources consumed in the manufacture of its products. The prices for and availability of electricity, natural gas, oil and other energy resources are subject to volatile market conditions. These market conditions often are affected by weather, political and economic factors, all of which are beyond our control. Disruptions in the supply of the energy resources could temporarily impair KES' ability to manufacture its products. Additionally, increases in energy costs could materially adversely affect KES' business, results of operations, financial condition and cash flows, which in turn would also have an adverse effect on the amount of tax sharing payments KES makes to us. These tax sharing payments are ALJ's sole source of cash to pay its operating expenses.

Mill management may be difficult to replace if they leave.

Management of the Mill is currently conducted by employees of Pinnacle pursuant to the Management Agreement which expires on September 30, 2015, subject to earlier termination or extension based on the performance of the Mill. Our operations and prospects depend in large part on the performance of our Mill management team. The loss of the services of one or more members of our Mill management team or the inability to attract, retain and maintain qualified additional Mill management personnel could harm our business, financial condition, results of operations and future prospects.

Our production and earnings could be reduced by strikes or work stoppages by our employees.

As of March 31, 2012, the Mill employed 138 individuals. If the Mill employees were to strike or we faced similar work stoppages we would experience a disruption of production at our facility, which would cause an adverse impact on our operating costs and results of operations.

Our level of indebtedness and other demands on our cash resources could materially adversely affect our ability to execute our business strategy.

Our total debt obligations (including preferred stock considered as debt obligations in our consolidated financial statements) are approximately $54 million on a consolidated basis as of March 31, 2012. Subject to the limits contained in our Credit Facility and Subordinated Financing Agreement, we may also incur additional debt in the future. In addition to interest and principal payments on our outstanding debt and dividends and repurchase obligations with respect to our preferred stock, we, and in particular KES, have other demands on our cash resources, including, among others, capital expenditures that may arise from time to time and operating expenses.

Our significant indebtedness levels and other demands on our cash resources could have a material effect on our operations and our ability to execute our business strategy. Specifically, our debt has the following impacts on our operations, among others:

- Except for periodic tax sharing payments, all of KES' cash flows must be used to fund its operations and service its debt obligations, including interest, dividends, required principal payments, and required preferred stock repurchase obligations, and therefore is not available for use in KES' business, including working capital needs;

- Our ability to obtain additional debt financing for working capital, capital expenditures, general corporate purposes or other purposes could be impaired by the terms and amount of KES' existing debt and if additional funding is required we may be required to seek additional equity financings, which may have a dilutive impact on our existing stockholders or may not be unavailable on acceptable terms or at all;

- Our failure to comply with restrictions and covenants contained in the terms of our debt agreements, in particular the Credit Facility and Subordinated Financing Agreement, could lead to a default which could cause all or a significant portion of our debt to become immediately payable; if such default is not cured or waived, our lenders could foreclose on our assets, which could result in a complete loss of our stockholders' investments;

- Restrictions in our debt agreements could limit our flexibility in planning for, or reacting to, changes in the industries in which we compete;

- Our level of indebtedness could place us at a competitive disadvantage compared to our competitors, some of which have less debt service obligations and greater financial resources than we do; and

- Our level of indebtedness could increase our vulnerability to general adverse economic and industry conditions.

To service our indebtedness, we will require a significant amount of cash, and our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on our indebtedness and to fund any future capital expenditures required by KES will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

We cannot assure you that KES' business will generate sufficient cash flow from operations, or that future borrowings will be available to us under the Credit Facility in an amount sufficient to enable us to pay our indebtedness, or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness, on or before maturity. We cannot assure you that we will be able to refinance any of our indebtedness, including the Credit Facility, on commercially reasonable terms or at all, particularly given the current state of credit markets.

We have variable rate indebtedness that subjects us to interest rate risk, which could cause our annual debt service obligations to increase significantly.

A portion of our current borrowings, namely the Credit Facility ($13.4 million Revolver and $5.0 million Term Loan at March 31, 2012), and potential future borrowings, are and may continue to be at variable rates of interest, thus exposing us to interest rate risk. If interest rates increase, our debt service obligations on our variable rate indebtedness would increase even if the amount borrowed remained the same, resulting in a decrease in our net income. For example, if interest rates increased in the future by 100 basis points, based on our current borrowings as of March 31, 2012, we would incur approximately an additional $46,000 per quarter in interest expense.

Our net operating loss carryforwards could be substantially limited if we experience an "ownership change" as defined in Section 382 of the Internal Revenue Code.

Our ability to utilize NOLs and tax credit carry-forwards to offset our future taxable income and/or to recover previously paid taxes would be limited if we were to undergo an "ownership change" within the meaning of Section 382 of the Code.

Section 382 of the Code contains rules that limit the ability of a company that undergoes an "ownership change," which is generally any change in ownership of more than 50% of its stock over a three-year period, to utilize its NOLs and certain built-in losses recognized in years after the ownership change. These rules generally operate by focusing on ownership changes among stockholders owning directly or indirectly 5% or more of the stock of a company and any change in ownership arising from a new issuance of stock by the company.

If we undergo an ownership change for purposes of Section 382 as a result of future transactions involving our common stock, including purchases or sales of stock between 5% shareholders, our ability to use our NOLs and to recognize certain built-in losses would be subject to the limitations of Section 382. Depending on the resulting limitation, a significant portion of our NOLs could expire before we would be able to use them. We had approximately $259 million of (pre-tax) NOLs as of March 31, 2012. The NOLs do not begin to expire until 2020 and are available to be used at some level through 2025. Our inability to utilize our NOLs could have a negative impact on our financial position and results of operations.

We do not believe we have experienced an "ownership change" as defined by Section 382 in the last three years. However, whether a change in ownership occurs in the future is largely outside of our control, and there can be no assurance that such a change will not occur.

In May 2009, we announced that our Board adopted a shareholder rights plan designed to preserve stockholder value and the value of certain tax assets primarily associated with NOLs and built in losses under Section 382 of the Code.

We also amended our certificate of incorporation to add certain restrictions on transfers of our stock that may result in an ownership change under Section 382.

Our ability and the ability of KES to engage in some business transactions may be limited by the terms of our debt.

The Subordinated Financing Agreement and Credit Facility contain a number of financial covenants requiring KES to meet financial ratios and financial condition tests, as well as covenants restricting its ability to:

- incur additional debt;
- make certain capital expenditures;
- incur or permit liens to exist;
- enter into transactions with affiliates;

- guarantee the debt of other entities, including joint ventures;
- merge or consolidate or otherwise combine with another company; and
- transfer or sell our assets.

KES' ability to borrow under the Credit Facility will depend upon its ability to comply with certain covenants and borrowing base requirements. Its ability to meet these covenants and requirements may be affected by events beyond its control and it may not meet these obligations. The failure of KES to comply with these covenants and requirements could result in an event of default under the Credit Facility or Subordinated Financing Agreement that, if not cured or waived, could terminate its ability to borrow further, permit acceleration of the relevant debt (and other indebtedness based on cross default provisions) and permit foreclosure on any collateral granted as security under the Credit Facility or Subordinated Financing Agreement. There can also be no assurance that the lenders will grant waivers on covenant violations, if they occur. Any such event of default would have a material adverse effect on us as KES is our principal asset and cash we receive through our tax sharing payments from KES is our sole source of cash to pay our operating expenses.

We rely upon a small number of major customers for a substantial percentage of our sales.

A loss of any large customer or group of customers could materially reduce our sales and earnings. We have substantial business relationships with a few large customers. For the six month period ending March 31, 2012, the Company had 3 customers that accounted for approximately 22% of net sales. We expect to continue to depend upon a small number of customers for a significant percentage of our net sales, and cannot assure you that any of them will continue to purchase steel from us.

Our internal controls and procedures may be deficient.

Our internal controls and procedures may be subject to deficiencies or weaknesses. Remedying and monitoring internal controls and procedures distracts our management from its operations, planning, oversight and performance functions, which could harm our operating results. Additionally, any failure of our internal controls or procedures could harm our operating results or cause us to fail to meet our obligation to maintain adequate public information.

We may have unknown liabilities stemming from YouthStream Media Networks, Inc.'s historical operations.

There may have been liabilities that stem from YouthStream Media Networks, Inc.'s historical operations of which we are not aware. In the event any such liability becomes known, it may lead to claims against us, including, but not limited to, lawsuits, administrative proceedings, and other claims. Any such liabilities may subject us to increased expenses for attorneys' fees, fines and litigation and expenses associated with any subsequent settlements or judgments. There can be no assurance that such unknown liabilities do not exist. To the extent that such liabilities become known, any such liability-related expenses may materially and adversely affect our profitability, operating results and financial condition.

We may encounter difficulties in acquiring other companies.

We acquired the Mill effective March 1, 2005 and may in the future acquire other companies. If we identify suitable candidates, we may not be able to make investments or acquisitions on commercially acceptable terms. Acquisitions may cause a disruption in our ongoing business, distract management, require other resources and make it difficult to maintain our standards, controls and procedures. We may not be able to retain key employees of the acquired companies or maintain good relations with their clients or suppliers. We may be required to incur additional debt and to issue equity securities to effect and/or fund acquisitions, which may be dilutive to existing stockholders.

We cannot assure you that any acquisitions we make will enhance our business.

We cannot assure you that any completed acquisition will enhance our business. Since we anticipate that acquisitions could be made with both cash and our common stock, the potential impacts that may arise if we consummate one or more significant acquisitions may include:

- a substantial portion of our available cash could be used to consummate the acquisitions and/or we could incur or assume significant amounts of indebtedness; and

- our stockholders could suffer significant dilution of their interest in our common stock.

Also, we are required to account for acquisitions under the purchase method, which would likely result in our recording significant amounts of goodwill or other tangible and intangible assets. The inability of a subsidiary to sustain profitability may result in an impairment loss in the value of long-lived assets, principally goodwill and other tangible and intangible assets, which would adversely affect our financial statements.

Decreases in the demand for steel could have a material adverse impact on our business.

The U.S. steel industry has recently experienced a significant economic downturn. This decline has led to deterioration in backlog and, therefore, excess capacity in producing mills worldwide, which has already resulted in a corresponding decrease in our sales and may adversely impact our sales, financial condition and results of operations going forward. Further, while we operate in the U.S., the global steel industry has suffered significant deterioration in demand, which has had an adverse affect on steel prices in the U.S.

We may face significant price and other forms of competition from other steel producers, which could have a material adverse effect on our business, financial condition, results of operation or prospects.

The global markets in which steel companies conduct business are highly competitive. Increased competition could cause us to lose market share or reduce pricing, either one of which could have a material adverse effect on our business, financial condition, results of operations or prospects. We compete primarily on the basis of price, quality and the ability to meet our customers' product needs and delivery schedules. Some of our competitors may have advantages due to greater capital resources, different technologies, lower raw material costs, lower energy costs or favorable exchange rates.

Risks Related to our Common Stock

Our common stock is illiquid and stockholders may be unable to sell their shares.

Our common stock is currently quoted on the "Pink Sheets" under the symbol "ALJJ.PK." There is currently only a limited market for our common stock and we can provide no assurance to investors that a more robust market will develop. If a broader market for our common stock does not develop, our stockholders may encounter difficulties selling their common stock from time to time. We do not have the ability to uplist our stock on NASDAQ, the NYSE or the AMEX exchanges because we do not meet the qualifications for listing on those exchanges at this time.

Our stock is a penny stock and, as a result, our stockholders are more limited in their ability to sell their stock.

The Securities and Exchange Commission has adopted rules that regulate broker-dealer practices in connection with the sale of penny stocks, or low-priced securities other than securities registered on certain exchanges, to persons other than established customers and institutional accredited investors. Because our securities constitute penny stocks within the meaning of the rules, the rules apply to us and our securities. For transactions covered by these rules, prior to effecting a transaction in a penny stock, a broker-dealer must, among other things: (a) make a special suitability determination for the purchaser; (b) deliver a standardized risk disclosure document to the customer; (c) receive written acknowledgement of the receipt

of the disclosure statement; (d) provide to customers current bids and offers, including the number of shares to which such bid and offer prices apply; (e) disclose to customers the broker-dealer and sales representation compensation; and (f) receive the purchaser's written consent to the transaction prior to the sale. These suitability requirements and disclosure requirements may have the effect of reducing the trading activity in the secondary market for our stock.

Volatility in the market price of our common stock.

The market price of our common stock could fluctuate substantially in the future in response to a number of factors, including the following:

- our quarterly operating results or the operating results of other companies in the steel industry;
- changes in general conditions in the economy, the financial markets or the steel industry;
- announcements by us or our competitors of significant acquisitions; and
- increases in raw materials and other costs.

In addition, in recent years the stock market has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated to their operating performance. These broad market fluctuations may materially adversely affect our stock price, regardless of our operating results.

We do not currently plan to pay dividends to holders of our common stock.

We do not currently anticipate paying cash dividends to the holders of our common stock. Accordingly, holders of our common stock must rely upon price appreciation as the sole method to realize a gain on their investment. There can be no assurances that the price of our common stock will ever appreciate in value.

The anti-takeover provisions of our stockholders rights plan may have the effect of delaying or preventing beneficial takeover bids by third parties.

We have a stockholder rights plan (the "Rights Plan") designed to preserve the value of certain tax assets primarily associated with our NOLs and built in losses under Section 382. At March 31, 2012, the Company had approximately $259 million in net operating losses and the use of such losses to offset federal income tax would be limited, if the Company experiences an "ownership change" under Section 382. This would occur if stockholders owning (or deemed under Section 382 to own) 5% or more of the Company's stock by value increase their collective ownership of the aggregate amount of the Company's stock by more than 50 percentage points over a defined period of time. The Rights Plan was adopted to reduce the likelihood of an "ownership change" occurring as defined by Section 382.

In connection with the Rights Plan, the Company declared a dividend of one preferred share purchase right for each share of its common stock outstanding as of the close of business on May 21, 2009. Pursuant to the Rights Plan, any stockholder or group that acquires beneficial ownership of 4.9 percent or more of the Company's outstanding stock (an "Acquiring Person") without the approval of the Company's Board would be subjected to significant dilution of its holdings. Any existing stockholder holding 4.9% or more of the Company's stock will not be considered an Acquiring Person unless such stockholder acquires additional stock of the Company; provided, however, that existing stockholders actually known to the Company to hold 4.9% or more of its stock as of April 30, 2009 are permitted to purchase up to an additional 5% of the Company's stock without triggering the Rights Plan. In addition, in its discretion, the Board may exempt certain persons whose acquisition of securities is determined by the Board not to jeopardize the Company's deferred tax assets and may also exempt certain transactions. The Rights Plan will continue in effect until May 13, 2019, unless it is terminated or redeemed earlier by the Board.

While the Rights Plan is intended to protect our NOLs and built-in losses under Section 382, it may also have the effect of delaying or preventing beneficial takeover bids by third parties.

ITEM 8. EXHIBITS

A list of exhibits required to be filed as part of this report is set forth in the Index to Exhibits, which immediately precedes such exhibits, and is incorporated herein by reference.

PART E

EXHIBITS

Exhibit No.	Description
1*	First Amendment to Restated Certificate of Incorporation of ALJ Regional Holdings, Inc. as filed with the Secretary of State of the State of Delaware on June 1, 2010.
2	Restated Certificate of Incorporation of ALJ Regional Holdings, Inc. as filed with the Secretary of State of the State of Delaware on June 16, 2009 (incorporated by reference to Exhibit 1 to the Company's Quarterly Report for the quarter ended June 30, 2009 available at www.pinksheets.com.).
3	Certificate of Ownership and Merger of YouthStream Media Networks, Inc. as filed with the Secretary of State of the State of Delaware on October 23, 2006. (incorporated by reference to Exhibit 2 to the Company's Annual Report available at www.pinksheets.com posted on January 15, 2007)
4	Restated Bylaws of ALJ Regional Holdings, Inc. (incorporated by reference to Exhibit 7 to the Company's Quarterly Report for the quarter ended March 31, 2009 available at www.pinksheets.com.)
5	YouthStream Media Networks, Inc. 2000 Stock Incentive Plan (incorporated by reference to Exhibit 10.28 to YouthStream's Form 10-KSB filed with the SEC for the fiscal year ended June 30, 1999).
6**	First Amendment to the Amended and Restated Management Services Agreement by and between KES Acquisition Company and Pinnacle Steel, LLC dated February 23, 2007.
7	Amended and Restated Management Services Agreement, February 28, 2005, by and between KES Acquisition Company, LLC and Pinnacle Steel, LLC (incorporated by reference to Exhibit 10.83 to YouthStream's Form 8-K, filed with the SEC on March 14, 2005).
8**	Amended and Restated Tax Sharing Agreement by and between the ALJ Regional Holdings, Inc. and KES Acquisition Company.
9	Rights Agreement dated May 13, 2009 by and between ALJ Regional Holdings, Inc. and American Stock Transfer and Trust Company, LLC (incorporated by reference to Annex B to ALJ Regional Holdings proxy statement dated May 15, 2009 available at www.pinksheets.com).
10****	Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated as of September 30, 2011, by and among KES, the financial institutions from time to time a party thereto and PNC as a lender and agent for the lenders.
11*	Second Amendment to the Amended and Restated Management Services Agreement by and between KES Acquisition Company and Pinnacle Steel, LLC dated May 28, 2010.
12****	Third Amendment to the Amended and Restated Management Services Agreement by and between KES Acquisition Company and Pinnacle Steel, LLC dated September 30, 2011.

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*	Filed with the Company's Quarterly Report for the period ended June 30, 2010.
**	Filed with the Company's Quarterly Report for the period ended March 31, 2007.
***	Filed with the Company's Quarterly Report for the period ended June 30, 2009.
****	Filed with the Company's Annual Report for the period ended September 30, 2011.

ITEM 9. CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

Certification of the Chief Executive Officer

I, John Scheel, hereby certify that:

1. I have reviewed this quarterly disclosure statement of ALJ Regional Holdings, Inc. for the fiscal quarter ended March 31, 2012;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements and other financial information included or incorporated by reference in this disclosure statement, fairly present, in all material respects, the financial condition, results of operations and cash flows of ALJ Regional Holdings, Inc., as of, and for, the fiscal quarter ended March 31, 2012.

Date: May 15, 2012

/S/ John Scheel
John Scheel,
Chief Executive Officer

Certification of the Chief Financial Officer

I, T. Robert Christ, hereby certify that:

1. I have reviewed this quarterly disclosure statement of ALJ Regional Holdings, Inc. for the fiscal quarter ended March 31, 2012;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements and other financial information included or incorporated by reference in this disclosure statement, fairly present, in all material respects, the financial condition, results of operations and cash flows of ALJ Regional Holdings, Inc., as of, and for, the fiscal quarter ended March 31, 2012.

Date: May 15, 2012

/S/ T. Robert Christ
T. Robert Christ,
Chief Financial Officer

ALJ REGIONAL HOLDINGS, INC.

244 Madison Avenue
PMB #358
New York, New York 10016

(212) 883-0083

Quarterly Report for the
Period Ended
June 30, 2012

ALJ REGIONAL HOLDINGS, INC.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

Statements in this report (the "Report") regarding financial and operating performance and other statements that are not historical facts, including, among others, statements regarding the Company's ability to fund its operations, service indebtedness, improve operating efficiencies, benefit from financial and corporate restructuring, offset future income against net operating loss carry-forwards ("NOLs") and use its rights plan to preserve NOLs, constitute forward-looking statements. In general, you can identify forward-looking statements by the presence of words such as "anticipate," "believe," "estimate," "expect, "intend," "may," "plan," "predict," "project," "will," and similar expressions.

Forward-looking statements are based on reasonable expectations and are subject to risks and uncertainties. Actual results will differ, perhaps materially, from those set forth or implied by such forward-looking statements due to a variety of factors, including, among others:

- Economic or other cyclical changes in market supply and demand for steel;
- Monetary or trade policy affecting the price, import or export of steel;
- Price competition resulting from excess steelmaking capacity in the market, imports of low-priced steel from overseas or consolidation of steelmaking operations;
- Changes in the availability or cost of raw materials, supplies and energy, including steel scrap, electricity, natural gas or other utilities;
- Unanticipated equipment failures and plant outages or extraordinary operating expenses;
- Margin compression resulting from the inability to pass expense increases or surcharges to customers;
- Loss of business from one or more major customers or end-users;
- Labor unrest, work stoppages or strikes involving the steel industry in general and in particular the workforce of the Company or those of its important suppliers or customers;
- Adverse weather conditions affecting the Company's operations or the operations of its important suppliers or customers;
- The impact of, or changes in, environmental laws or in the application of other legal or regulatory requirements upon the Company's production processes or costs of production or upon those of its suppliers or customers, including actions by government agencies, such as the U.S. Environmental Protection Agency or the Kentucky Department for Environmental Protection;
- Private or governmental liability claims or litigation, or the impact of any adverse outcome of any litigation on the adequacy of the Company's reserves, the availability or adequacy of its insurance coverage, its financial well-being or its business and assets;
- Changes in interest rates or other borrowing costs, or the effect of existing loan covenants or restrictions upon the cost or availability of credit to fund operations or take advantage of other business opportunities;
- Changes in the Company's business strategies or development plans which it may adopt or which may be brought about in response to actions by its suppliers or customers, and any difficulty or inability to successfully consummate or implement as planned any planned or potential projects, acquisitions, joint ventures, listing of its common stock on a national securities exchange, or strategic alliances; and
- Changes in tax laws or regulations regarding the use and/or preservation of NOLs.

The Company also is subject to general business risks, including its success in continuing to settle the Company's outstanding obligations from its prior business activities, results of tax audits, the Company's ability to retain and attract key employees, acts of war or global terrorism, and unexpected natural disasters.

Any forward-looking statements included in this Report are made as of the date hereof and based on information available to the Company as of the date hereof. The Company assumes no obligation to update any forward-looking statements.

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ITEM 1. EXACT NAME OF THE ISSUER AND THE ADDRESS OF ITS PRINCIPAL EXECUTIVE OFFICES

ALJ Regional Holdings, Inc. ("ALJ" or the "Company") has its principal offices at:

244 Madison Avenue, PMB 358
New York, NY 10016
Phone: (212) 883-0083
Fax: (606) 929-1261

References to the "Company," "we," "us" and "our" are to the consolidated operations of ALJ, including the operations of its subsidiaries, except to the extent the context is intended to refer only to ALJ.

The Company was originally incorporated in the State of Delaware under the name Nuparent, Inc. on June 22, 1999. The Company's name was changed to YouthStream Media Networks, Inc. on June 24, 1999 and that name was used through October 23, 2006. The Company's name was changed to ALJ Regional Holdings, Inc. on October 23, 2006. The Company maintains a website at www.aljregionalholdings.com. The Company's investor relations contact is Jess Ravich, the Chairman of the Board. Mr. Ravich can be reached at (310) 789-5741.

The Company's transfer agent is American Stock Transfer & Trust Company, LLC whose address and phone number are:

American Stock Transfer & Trust Company, LLC
Operations Center
6201 15th Avenue
Brooklyn, NY 11219
(718) 921-8293

ITEM 2. SHARES OUTSTANDING

The Company has only two classes of securities; common stock and preferred stock, the details of which are disclosed in the table below.

	Common Stock Period End Date			Preferred Stock Period End Date		
	June 30, 2012	September 30, 2011	September 30, 2010	June 30, 2012	September 30, 2011	September 30, 2010
Number of Shares Authorized	100,000,000	100,000,000	100,000,000	5,000,000	5,000,000	5,000,000
Number of Shares Outstanding	57,246,598	56,934,040	49,729,574	0	0	374,556

Of the 5,000,000 shares of preferred stock authorized, 1,000,000 shares have been designated as Series A Preferred Stock, none of which are currently issued and outstanding and 550,000 shares have been designated as Series B Preferred Stock, none of which are currently issued and outstanding.

ITEM 3. INTERIM FINANCIAL STATEMENTS

ALJ REGIONAL HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	June 30, 2012	September 30, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,731,866	$ 1,282,228
Accounts receivable, less allowance for doubtful accounts of $708,495 at June 30, 2012 and $703,532 at September 30, 2011	13,971,507	14,522,393
Inventories	26,191,385	28,351,131
Prepaid expenses and other current assets	427,729	1,310,364
Deferred taxes	3,059,567	3,059,567
Total current assets	45,382,054	48,525,683
Property, plant and equipment	5,107,203	5,107,203
Less accumulated depreciation and amortization	(2,844,458)	(2,573,958)
Property, plant and equipment, net	2,262,745	2,533,245
Other assets:		
Deposits	224,460	924,460
Deferred loan costs, net of amortization	309,089	398,719
Investment in Bellator	90,228	90,228
Total other assets	623,777	1,413,407
Total assets	$ 48,268,576	$ 52,472,335

(continued)

ALJ REGIONAL HOLDINGS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(continued)

	June 30, 2012	September 30, 2011
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current liabilities:		
Accounts payable	$ 9,795,651	$ 9,888,998
Accrued expenses	3,392,669	3,378,535
Accrued interest payable – 8% subordinated term loans	1,172,717	1,476,233
Income taxes payable	686,430	867,300
Current portion of term loans	2,000,000	2,535,208
Current portion of capital lease obligation	45,075	171,792
Liabilities related to discontinued operations	2,984,660	2,984,660
Total current liabilities	$ 20,077,202	$ 21,302,726
Non-current liabilities:		
Secured line of credit	6,705,144	16,725,304
8% subordinated term loans	18,998,213	19,832,003
Term loans, less current portion	2,500,000	4,000,000
Series A Preferred stock of subsidiary subject to mandatory redemption; 13% cumulative, non-convertible, redeemable preferred stock, mandatory redemption and liquidation value of $1,000 per share; 5,936 shares issued and outstanding at June 30, 2012 plus cumulative dividends of $5,673,195, 5,936 shares issued and outstanding at September 30, 2011 plus cumulative dividends of $5,093,760	11,609,195	11,029,760
Deferred tax liability	383,158	383,158
Minority interest – related parties	7,158,188	5,775,831
Total liabilities	$ 67,431,100	$ 79,048,782
Commitments and contingencies		
Stockholders' deficiency:		
Common stock, $0.01 par value; authorized - 100,000,000 shares; 57,246,598 issued and outstanding at June 30, 2012 and 56,934,040 issued and outstanding at September 30, 2011	572,466	569,340
Additional paid-in capital	288,426,728	288,365,584
Accumulated deficit	(307,332,142)	(314,681,795)
Treasury stock – 607,500 shares, at cost	(829,576)	(829,576)
Total stockholders' deficiency	(19,162,524)	(26,576,447)
Total liabilities and stockholders' deficiency	$ 48,268,576	52,472,335

See accompanying notes to condensed consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended June 30,		Nine months Ended June 30,	
	2012	**2011**	**2012**	**2011**
NET SALES	$42,119,278	$43,163,486	$125,398,237	$116,130,160
COSTS AND EXPENSES				
Cost of sales	35,781,337	36,179,436	106,273,613	99,007,745
Selling	530,542	572,868	1,645,270	1,507,139
General and administrative	1,829,004	2,079,845	5,544,841	5,272,484
Total cost of operations	38,140,883	38,832,149	113,463,724	105,787,368
Income from operations	3,978,395	4,331,337	11,934,513	10,342,792
OTHER INCOME (EXPENSE)				
Interest income	6,853	13,892	21,145	51,694
Interest expense:				
13% Series A Preferred Stock	(192,440)	(192,440)	(579,435)	(577,320)
Subordinated loans payable	(393,978)	(622,244)	(1,187,787)	(1,866,734)
Other	(208,369)	(224,622)	(817,683)	(803,860)
Other income (expense), net	2,302	134,601	6,806	310,101
Total other income (expense)	(785,632)	(890,813)	(2,556,954)	(2,886,119)
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTEREST	3,192,763	3,440,524	9,377,559	7,456,673
Income taxes	(238,125)	(397,413)	(645,550)	(869,180)
INCOME (LOSS) BEFORE MINORITY INTEREST	2,954,638	3,043,111	8,732,009	6,587,493
MINORITY INTEREST – related parties	(435,728)	(496,953)	(1,382,356)	(1,088,898)
NET INCOME (LOSS)	2,518,910	2,546,158	7,349,653	5,498,595
NET INCOME (LOSS) PER COMMON SHARE -				
Basic	$0.04	$0.05	$0.13	$0.10
Dilutive	$0.04	$0.05	$0.12	$0.10
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING				
Basic	57,090,319	53,331,807	57,090,319	53,331,807
Dilutive	59,390,319	54,931,807	59,490,319	56,856,807

See accompanying notes to condensed consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' DEFICIENCY
(UNAUDITED)
NINE MONTHS ENDED JUNE 30, 2012

	Common Stock		Additional Paid-in	Accumulated	Treasury	
	Shares	Amount	Capital	Deficit	Stock	Total
Balances at September 30, 2011	56,934,040	$ 569,340	$ 288,365,584	$ (314,681,795)	$ (829,576)	$ (26,576,447)
Share-based compensation:						
Restricted Stock	105,930	1,059	17,214			18,273
Escheated Stock	6,628	67	(67)			0
Exercise of stock options	200,000	2,000	43,997			45,997
Net income				7,349,653		7,349,653
Balances at June 30, 2012	57,246,598	$ 572,466	$ 288,426,728	$ (307,332,142)	$ (829,576)	$ (19,162,524)

See accompanying notes to condensed consolidated financial statements

ALJ REGIONAL HOLDINGS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine months Ended June 30,	
	2012	**2011**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$ 7,349,653	$ 5,498,596
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	270,500	283,750
Stock-based compensation	17,147	148,640
Gain on extinguishment of debt	--	(132,351)
Gain on extinguishment of preferred stock	--	(147,941)
Amortization of deferred loan costs	89,630	176,712
Provision for bad debts	36,621	4,311
Minority interest – related parties	1,382,357	1,088,898
Changes in operating assets and liabilities:		
Decrease (increase) in -		
Accounts receivable, net	514,265	(6,005,835)
Inventories	2,159,746	(6,153,871)
Prepaid expenses and other receivables	882,635	1,019,536
Deposits	700,000	--
Increase (decrease) in -		
Accounts payable	(93,347)	5,694,886
Accrued expenses	14,134	1,864,249
Income taxes payable	(180,870)	(138,073)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	13,142,471	3,201,507
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments under equipment capital lease obligation	(126,717)	(112,454)
Exercise of stock options	47,123	--
Principal repayments on 8% subordinated loans	(833,790)	--
Accrued interest on 8% subordinated loans	1,187,787	2,084,301
Repayments of interest on 8% subordinated loans	(1,491,303)	(1,315,487)
Partial repayment on 4% loan payable	--	(300,000)
Partial repayment on 4% Preferred Stock	--	(277,600)
Accrued dividends on 4% Preferred Stock	--	38,843
Accrued dividends on 13% Preferred Stock	579,435	577,320
Repayments on Lake Forest term note payable	(535,208)	(547,989)
Repayments on PNC term loans	(1,500,000)	(2,000,000)
Net proceeds (repayments) under secured line of credit	(10,020,160)	(1,236,617)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(12,692,833)	(3,089,683)
NET CASH PROVIDED BY (USED IN) OPERATING, INVESTING AND FINANCING ACTIVITIES	449,638	111,824
CASH AND CASH EQUIVALENTS		
Net increase (decrease)	449,638	111,824
Balance at beginning of period	1,282,228	391,470
Balance at end of period	1,731,866	503,294
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for -		
Interest	3,313,471	1,860,057
Income taxes	387,124	404,577

See accompanying notes to condensed consolidated financial statements.

ALJ REGIONAL HOLDINGS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
JUNE 30, 2012

1. Organization and Basis of Presentation

Basis of Presentation

The accompanying consolidated financial statements include the accounts of ALJ Regional Holdings, Inc. ("ALJ" or the "Company"), and its direct and indirect wholly and majority-owned subsidiaries. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America. All inter-company items and transactions have been eliminated in consolidation.

Commencing March 1, 2005, the Company has included the operations of a steel mini-mill (the "Mill") owned and operated by its majority-owned subsidiary, KES Acquisition Company, a Delaware corporation fka YouthStream Acquisition Corp ("KES"), in its consolidated financial statements (see Note 2 to Consolidated Financial Statements), which represents the only business segment in which the Company currently operates.

The accompanying condensed consolidated financial statements are unaudited, but in the opinion of Company management, contain all adjustments, which include normal recurring accruals, necessary to present fairly the financial position at June 30, 2012 and September 30, 2011, the results of operations for the nine months ended June 30, 2012 and 2011, and the cash flows for the nine months ended June 30, 2012 and 2011.

Certain information and footnote disclosures normally included in financial statements that have been prepared in accordance with generally accepted accounting principles have been condensed or omitted, although management of the Company believes that the disclosures contained in these financial statements are adequate to make the information presented therein not misleading.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The results of operations for the nine months ended June 30, 2012 are not necessarily indicative of the results of operations to be expected for the full fiscal year ending September 30, 2012.

Liquidity and Capital Resources

The Company recognized net income of $7.3 million for the nine month period ended June 30, 2012 and generated a positive cash flow from operating activities of $13.1 million for the nine months ended June 30, 2012. The Company used $12.7 million in financing activities and had an accumulated deficit of $307.3 million and a stockholders' deficiency of $19.2 million at June 30, 2012.

The Company recognized net income of $11.4 million for the year ended September 30, 2011 and generated a positive cash flow from operating activities of $8.2 million for the year ended September 30, 2011. The Company used $7.3 million in operating activities and had an accumulated deficit of $314.7 million and a stockholders' deficiency of $26.6 million at September 30, 2011. The Mill relies on cash flows from operations and a secured credit facility with PNC Bank, National Association to fund its operations.

Based on its current level of operations, the Company believes that its current cash resources provided by operations and the Credit Facility (as defined below) will be adequate to fund its operations through June 30, 2013. However, to the extent the Company's estimates are inaccurate or its assumptions are incorrect,

the Company may not have sufficient cash resources to fund its operations. In such event, the Company may have to seek additional financing for the business.

The Company's management may also consider various strategic alternatives in the future, including the acquisition of new business opportunities, which may be from related or unrelated parties. However, there can be no assurances that such efforts will ultimately be successful. The Company may finance any acquisitions through a combination of debt and/or the issuance of equity securities.

2. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

ALJ is a holding company, whose primary asset is a majority share of the outstanding common stock and 100% of the voting securities of KES, the owner and operator of the Mill, which manufactures and sells steel bar flats.

Cash and Cash Equivalents

Cash and equivalents include all cash, demand deposits and money market accounts with original maturities of three months or less.

Accounts Receivable

The Company grants credit to its customers generally in the form of short-term trade accounts receivable. Management evaluates the credit risk of its customers utilizing historical data and estimates of future performance.

Accounts receivable are stated at the amount management expects to collect from outstanding balances. When appropriate, management provides for probable uncollectible amounts through a provision for doubtful accounts and an adjustment to a valuation allowance. Management reviews and adjusts this allowance periodically based on the aging of accounts receivable balances, historical write-off experience, customer concentrations, customer creditworthiness and current industry and economic trends. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Inventory

Inventories are comprised of raw materials (consisting of alloys and scrap metal), semi-finished goods (billets) and finished goods. Inventory costs include material, labor and manufacturing overhead. Inventories are valued at the lower of average cost or market. The average cost of the billets and scrap metal is adjusted periodically to reflect current changes in cost inputs. The market value of billet and scrap metal inventories is determined using replacement costs.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost. Expenditures for routine maintenance and repairs are charged to expense as incurred. Expenditures for equipment renewals and improvements, which extend the useful life of an asset, are capitalized. Certain equipment held under capital lease is classified as property, plant and equipment, and the related obligation is recorded as a liability. Lease amortization is included in depreciation expense.

Depreciation is provided on the straight-line method over the estimated useful lives of the assets, generally 3 to 20 years for machinery and equipment, and 20 to 40 years for buildings and improvements. Equipment under capital lease is amortized using the straight-line method over the primary lease term.

Revenue Recognition

The Company recognizes revenue when there is persuasive evidence that an arrangement exists, delivery of the product has occurred and title has passed, the selling price is both fixed and determinable, and collectibility is reasonably assured, all of which generally occur either upon shipment of the Company's product or delivery of the product to the destination specified by the customer.

Stock-Based Compensation

The Company recognizes compensation expense for its equity awards on a straight-line basis over the requisite service period of the award based on the estimated portion of the award that is expected to vest and applies estimated forfeiture rates based on analyses of historical data, including termination patterns and other factors. The Company uses the quoted closing market price of its common stock on the grant date to measure the fair value of restricted stock awards and the Black-Scholes option pricing model to measure the fair value of stock option awards. The expected volatility is based on historical volatilities of the Company's common stock over the most recent period commensurate with the estimated expected term of the awards. The expected term of an award is equal to the midpoint between the vesting date and the end of the contractual term of the award. The risk-free interest rate is based on the rate on U.S. Treasury securities with maturities consistent with the estimated expected term of the awards. The Company has not paid dividends and does not anticipate paying a cash dividend in the foreseeable future and, accordingly, uses an expected dividend yield of zero.

Income Taxes

The Company uses the asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax-credit carry-forwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amount of assets and liabilities and their tax bases.

The Company's judgments relative to the current provision for income taxes take into account current tax laws, the Company's interpretation of current tax laws and possible outcomes of current and future audits conducted by tax authorities. The Company files income tax returns in the U.S. federal jurisdictions and various state jurisdictions and is subject to U.S. federal tax and state tax examinations for years ranging from 2008 to 2011. The Company's judgments relative to the value of deferred tax assets and liabilities take into account estimates of the amount of future taxable income. Actual operating results and the underlying amount of income in future years could render the Company's current estimates of recoverable net deferred taxes inaccurate. Any of the judgments mentioned above could cause the Company's actual income tax obligations to differ from its estimates, thus materially impacting the Company's financial position and results of operations.

If the Company takes a recognized tax position or has taken a recognized tax position on a tax return that more likely than not would be sustained upon examination by tax authorities, then the Company will recognize the potential asset or liability in the financial statements. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Management believes that the Company has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accrual for tax liabilities are adequate for all open years on assessment of many factors including past experience and interpretation of tax law applied to the facts of each matter.

Concentrations

The Company maintains its cash balances with three financial institutions. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At times these balances are in excess of the FDIC insured balances.

For the nine month period ending June 30, 2012, the Company had three suppliers that accounted for approximately 53% of raw materials purchases, of which approximately $3.1 million was included in accounts payable at June 30, 2012. For the nine month period ending June 30, 2012, the Company had three customers that accounted for approximately 22% of net sales, of which approximately $3.6 million was included in accounts receivable at June 30, 2012.

Earnings Per Share

Basic net income or loss per share is computed by dividing net income or loss by the weighted average number of common shares outstanding for the period. Nonvested shares of restricted stock are not included in the computation of basic net income per share until vested. Diluted net income per share includes the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. Diluted net income per share also includes the dilutive effect of nonvested shares of restricted stock.

The following table summarizes the basic and diluted weighted average shares for the three and nine months ending June 30, 2012 and 2011:

	Three Months Ended June 30,		Nine months Ended June 30,	
	2012	**2011**	**2012**	**2011**
Weighted average shares outstanding, basic	57,090,319	53,331,807	57,090,319	53,331,807
Dilutive effect of:				
Options to purchase common stock	2,300,000	1,600,000	2,400,000	1,525,000
Warrants to purchase common stock	--	--	--	--
Weighted average shares outstanding, diluted	59,390,319	54,931,807	59,490,319	54,856,807

3. Acquisition of Steel Mini-Mill

In September 2003, ALJ invested $125,000 to acquire a 1.00% membership interest in KES Holdings, LLC, a Delaware limited liability company, which was formed to acquire certain assets of Kentucky Electric Steel, Inc., a Delaware corporation, consisting of the Mill pursuant to Section 363 of the United States Bankruptcy Code through its subsidiary, KES Acquisition Company, LLC, a Delaware limited liability company and predecessor of KES ("KES Acquisition"). The Mill had ceased production on or about December 16, 2002 and its prior owner had filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code on February 5, 2003. The Mill had been in operation for approximately forty years and was refurbished by KES Acquisition subsequent to its acquisition. The refurbished Mill has been generating revenues since late January 2004. ALJ completed its acquisition of the Mill in March 2005.

4. Recent Developments

None.

5. Related Party Transactions

None.

6. Discontinued Operations

As of June 30, 2012 and September 30, 2011, the Company maintained an estimated accrual of liabilities associated with the discontinued operations of $2,984,660 and $2,984,660, respectively, remaining from its

discontinued businesses. The accrued liabilities consist primarily of severance, lease payments, tax payments and other costs related to the operations of the discontinued businesses.

7. Accounts Receivable

Accounts Receivable is summarized as follows at June 30, 2012 and September 30, 2011:

	June 30, 2012 Unaudited	September 30, 2011 Unaudited
Accounts Receivable	$ 14,680,002	$ 15,225,925
Less: Allowance for doubtful accounts	(708,495)	(703,532)
Total	$ 13,971,507	$ 14,522,393

8. Inventories

Inventories are comprised of the following at June 30, 2012 and September 30, 2011:

	June 30, 2012 Unaudited	September 30, 2011 Unaudited
Raw materials	$ 2,833,083	$ 2,739,663
Semi-finished goods	12,713,123	14,317,669
Finished goods	10,645,179	11,293,799
Total	$ 26,191,385	$ 28,351,131

Inventories are comprised of raw materials, semi-finished goods and finished goods. Inventory costs include material, labor and manufacturing overhead. Inventories are valued at the lower of average cost or market. The average cost of the billets and scrap metal is adjusted periodically to reflect current changes in cost inputs.

9. Property, Plant and Equipment

Property, plant and equipment consisted of the following at June 30, 2012 and September 30, 2011:

	June 30, 2012 Unaudited	September 30, 2011 Unaudited
Land	$ 142,498	$ 142,498
Buildings and improvements	572,497	572,497
Machinery and equipment	4,392,208	4,392,208
Total	5,107,203	5,107,203
Less: Accumulated depreciation and amortization	(2,844,458)	(2,573,958)
	2,262,745	2,533,245

Depreciation and amortization expense for the nine months ended June 30, 2012 and 2011 was $270,500 and $283,750, respectively.

10. Long-Term Debt

Secured Credit Line and Restructure of Debt Obligations

On September 30, 2011, KES entered into the Amended and Restated Revolving Credit, Term Loan and Security Agreement (the “Loan Agreement”) with PNC Bank, National Association. The Loan Agreement provides for an asset-based revolving credit line of $30 million (the “Revolver”) and a term loan of $6 million (the “Term Loan,” and together with the Revolver, the “Credit Facility”). The Term Loan and the Revolver bear interest at variable rates based on LIBOR or the base commercial lending rate of PNC as

publicly announced from time to time. As of June 30, 2012 and September 30, 2011, the outstanding balance on the Term Loan was $4.5 million and $6.0 million, respectively, with an interest rate of 6.50% and 8.00%, respectively. As of June 30, 2012, the outstanding balance on the Revolver was $6.7 million, of which $705,144 had an interest rate of 6.00% and $6.0 million had an interest rate of 4.5%. As of September 30, 2011 the outstanding balance on the Revolver was $16.7 million with an interest rate of 6.00%. The Credit Facility is secured by all of the assets of KES and contains customary covenants, including financial covenants requiring KES to maintain certain fixed charge coverage and leverage ratios and has been presented as a non-current liability in the balance sheet. In addition, the Credit Facility contains an event of default if Jess Ravich is no longer on ALJ's Board of Directors. As of June 30, 2012, KES was in compliance with all specified covenants. In the event that KES is not in compliance with any financial covenants, KES intends to seek a waiver of any default from the lender, and if no such waiver is received, the lender would have the right to accelerate the maturity of the Credit Facility at that time. The Term Loan is to be repaid in equal principal payments of $500,000 per quarter over twelve quarters plus certain mandatory prepayments. The Revolver expires on September 30, 2014.

Mr. Ravich, together with two trusts including a trust related to Mr. Ravich, collectively guaranteed the Term Loan. KES paid a one-time fee of $200,000 to the guarantors. The agreement with the guarantors provides that in the event that Mr. Ravich is no longer a director of ALJ, other than by voluntary resignation, then a guaranty premium fee of $500,000 will be paid to the guarantors. The terms of the guaranty and guaranty fee were approved by the independent members of each of the ALJ and KES Boards of Directors.

During the nine months ending June 30, 2012, the Company also repaid a loan payable to Lake Forest Bank and Trust Company in the amount of $535,208. The interest rate on the loan was 3.75%. There are currently no amounts due under this loan. As of September 30, 2011, the amount outstanding on the loan was $535,208.

8% Subordinated Loans

Subordinated loans (the "Subordinated Loans") consist of a series of loans due from KES under the Subordinated Financing Agreement dated July 20, 2009 by and among KES, the lenders party thereto and Ableco, L.L.C. (the "Subordinated Financing Agreement"), which replaced a series of subordinated secured promissory notes dated February 23, 2007, which were originally issued in March 2005 in connection with ALJ's acquisition of KES. The Subordinated Loans are subordinate to the Credit Facility. The Subordinated Loans bear interest at 8% per annum, with interest payable annually. So long as the Credit Facility remains outstanding, the Company may, at its discretion, capitalize unpaid accrued interest into the outstanding Subordinated Loan principal. Principal on the Subordinated Loans is due and payable upon the earlier to occur of (i) an event of default under the Subordinated Financing Agreement, which includes an event of default under the Credit Facility or (ii) February 22, 2017. At June 30, 2012 and September 30, 2011, the principal balance outstanding on the Subordinated Loans was $19.0 million and $19.8 million, respectively. Accrued interest on the Subordinated Loans as of June 30, 2012 and September 30, 2011 was $1.2 million and $1.5 million, respectively. The Subordinated Loans are secured by a second priority security interest in all of KES' assets.

The subordinated lenders include affiliates of Ableco, L.L.C., ALJ and three members of ALJ's Board of Directors. Related parties hold Subordinated Loans with an aggregate principal balance at June 30, 2012 and September 30, 2011 of $9.5 million and $10.0 million, respectively and accrued interest at June 30, 2012 and September 30, 2011 of $601,587 and $1.2 million, respectively.

13% Series A Preferred Stock

In connection with the acquisition of the Mill and pursuant to its articles of incorporation, KES issued 25,000 shares of its 13% Series A Preferred Stock with the following rights, preferences and privileges:

a. Dividend Rights. The holders of the 13% Series A Preferred Stock are entitled to receive cumulative dividends in cash at the rate of 13% per year on the face amount of $1,000 per share payable concurrent with the redemption of the 13% Series A Preferred Stock. The dividends are payable, when and as declared by KES' Board of Directors, out of funds legally available for that purpose, upon a liquidation event or upon redemption of the 13% Series A Preferred Stock.

b. Liquidation and Redemption. The 13% Series A Preferred Stock contains a liquidation preference equal to $1,000 per share, plus accrued but unpaid dividends, and is redeemable out of, and to the extent of, legally available funds, at a redemption price equal to the sum of $1,000 and all accrued but unpaid dividends on the first anniversary of KES' full and complete repayment of the Subordinated Loans. As of June 30, 2012, the balance outstanding on the 13% Series A Preferred Stock was $5.9 million, related accrued dividends payable were $5.7 million and $1.9 million of the preferred stock was held by related parties. As of September 30, 2011, the balance outstanding on the 13% Series A Preferred Stock was $5.9 million, related accrued dividends payable were $5.1 million and $1.9 million of the preferred stock was held by related parties.

c. Convertibility and Voting Rights. The 13% Series A Preferred Stock is not convertible into any other security of the Company, and the holders thereof have no voting rights except with respect to any proposed changes in the preferences and special rights of such stock or except as granted to holders by law.

Pursuant to SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity," because the 13% Series A Preferred Stock provides for mandatory redemption in cash, it is classified as a long-term liability at the redemption value at June 30, 2012 and September 30, 2011 of $11.6 million and $11.0 million, respectively, including cumulative dividends of $5.9 million and $5.1 million, respectively.

11. Commitments and Contingencies

Operating Commitments

The Mill has been operating under a Management Agreement with Pinnacle Steel, LLC ("Pinnacle") effective through September 30, 2015 (the "Management Agreement") pursuant to which Pinnacle provides, at its expense, employees to serve as the general manager of the Mill and provide oversight and general management of the operations of the Mill. Pursuant to the Management Agreement, Pinnacle receives an annual fee of $700,000, payable monthly, and bonus payments equal to 16.6% of defined earnings before interest, taxes, depreciation and amortization ("EBITDA") in excess of $6,000,000. In addition, in the event the Management Agreement is terminated following a change of control of KES, a termination fee is payable in an amount equal to two times the management fee for the prior 12-month period. Total management fee expense was $1.6 million and $1.4 million for the nine months ended June 30, 2012 and 2011, respectively. As of June 30, 2012 and September 30, 2011, the balance of accrued management fee was $1.6 million and $2.1 million, respectively.

The Company has various short-term commitments for the purchase of materials, supplies and energy arising in the ordinary course of business which aggregated approximately $3.4 million and $1.9 million at June 30, 2012 and September 30, 2011, respectively.

The Company has a defined contribution pension plan for eligible employees who have completed one month of service and have attained the age of twenty-one. The Company's matching contribution equals 100% of each participant's elective deferral, not to exceed 6% of their eligible compensation. Participants are immediately vested in their deferred compensation and earnings thereon. The participant becomes 100% vested in the Company's matching contributions after one year of credited service. The Company may make other discretionary contributions to be determined on an annual basis. The Company's contributions charged to operations during the nine months ended June 30, 2012 and June 30, 2011 were approximately $353,479 and $342,647, respectively.

12. Income Taxes

For the nine months ended June 30, 2012 and 2011, the Company had income tax expense due to taxable income from operations. The Company recognized federal and state income tax expense related to continuing operations for the nine months ended June 30, 2012 and 2011 of $645,550 and $869,180, respectively.

Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Company files income tax returns in the U.S. federal jurisdiction and various states. The Company is subject to tax examinations for periods post 2008 by federal, state and local tax authorities for various tax liabilities incurred by the parent entity and its subsidiaries, including any discontinued businesses. The amount of any tax assessments and penalties may be material and may negatively impact the Company's operations. Given the uncertainty in the amount and the difficulty in estimating the probability of the assessments arising from future tax examinations, the Company has not made any accruals for such tax contingencies.

In assessing the realization of deferred tax assets, the Company performed an analysis of the available evidence to determine whether it is more likely than not that some portion or all of the deferred tax assets can be realized. One factor considered is the ability of the Company to generate consistent future taxable income in the periods in which the temporary differences become deductible. The main component of the deferred tax assets is the net operating loss carry-forward. There has been significant positive evidence established by the Company to justify that only a partial valuation allowance is necessary, if any valuation is needed at all. The Company has shown consistent profitability over the past three years. Management also projects continued taxable income. Management believes it will be able to recognize a portion of its Net Operating Loss over the coming years. Management decided to realize a net deferred tax asset for $2.6 million as of September 30, 2011. A valuation allowance of $88.6 million has been established against the deferred tax asset of $91.3 million as of both June 30, 2012 and September 30, 2011.

Effective October 1, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN48"). FIN48 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Management believes that the Company has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accrual for tax liabilities are adequate for all open years on assessment of many factors including past experience and interpretation of tax law applied to the facts of each matter.

At June 30, 2012, the Company had net operating loss carry-forwards for federal income tax purposes of approximately $259 million that expire from 2020 through 2028. The use of approximately $36 million of these net operating losses in future years may be restricted under Section 382 of the Internal Revenue Code. The realization of the benefits of the net operating losses is dependent upon sufficient taxable income in future years. Lack of consistent future earnings, a change in ownership of the Company, or the application of the alternative minimum tax rules could adversely affect the Company's ability to utilize these net operating losses.

KES is included in the consolidated federal income tax return filed by ALJ as common parent. KES has entered into a Tax Sharing Agreement with ALJ, pursuant to which it has agreed to pay ALJ an amount equal to 50% of its "separate company tax liability," subject to compliance with the Credit Facility and Subordinated Financing Agreement. The term "separate company tax liability" is defined as the amount, if any, of the federal income tax liability (including, without limitation, liability for any penalty, fine, additions to tax, interest, minimum tax and other items applicable to such subsidiary in connection with the

determination of the subsidiary's tax liability), which such subsidiary would have incurred if its federal income tax liability for the periods during which it is includible in a consolidated federal income tax return with ALJ were determined generally in the same manner in which its separate return liability would have been calculated under Section 1552(a)(2) of the Code.

13. Stock-based Compensation and Stock Options

The Company determines the fair value of all stock-based compensation, including stock options and warrants by using the Black-Scholes option-pricing model. Included in the selling, general and administrative expenses for the nine months ended June 30, 2012 and 2011, the Company recognized stock-based share compensation expense of $18,273 and $23,437, respectively, related to the issuance of restricted stock in prior periods and $0 and $125,203, respectively, related to the issuance of stock options in a prior period.

All stock-based payments to employees are recognized in the financial statements as compensation expense based on the fair value on the date of grant. The Black-Scholes model requires input of certain assumptions, including volatility, expected term, risk-free interest rates, and dividend yield. For restricted stock grants issued during the twelve months ended September 30, 2011, the Company computed volatility of 106% and a risk-free interest rate of 0.15%. For restricted stock grants issued during the twelve months ended September 30, 2010, the Company computed volatility of 135% and a risk-free interest rate of 0.32%. Volatility was computed over the most recent period commensurate with the expected term of the options and restricted stock. The risk-free interest rate was based on the rate of U.S. Treasury securities with maturities consistent with the expected term of the options and restricted stock. The Company has not paid cash dividends on its common stock and does not anticipate paying a cash dividend in the foreseeable future and accordingly, uses an expected dividend yield of zero.

The summary of stock option activity for the nine months ending June 30, 2012 is as follows:

	Number of Options	Weighted Average Exercise Price per Share	Weighted Average Contractual Term Remaining
Balance outstanding as of September 30, 2011	2,800,000	$0.39	
Granted	0	$0.00	
Exercised	(200,000)	$0.23	
Forfeited	(200,000)	$0.30	
Balance outstanding as of June 30, 2012	2,400,000	$0.40	5.5 years
Options vested as of June 30, 2012	2,400,000	$0.40	5.5 years

14. Subsequent Events

None.

ITEM 4. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

General Overview

The Company includes the operations of the Mill, which represents the only business segment in which the Company currently operates, in its consolidated financial statements. The Company completed the acquisition of the Mill on March 9, 2005 (See Note 3 to the Consolidated Financial Statements).

Critical Accounting Policies and Estimates

The Company prepared its financial statements in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and

expenses during the reporting period. Management periodically evaluates the estimates and judgments made. Management bases its estimates and judgments on historical experience and on various factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates as a result of different assumptions or conditions.

The Company believes that of its significant accounting policies, which are described in Note 2 to the accompanying consolidated financial statements and in the Company's annual report for the year ended September 30, 2011, the following accounting policies involve a greater degree of judgment and complexity. Accordingly, these are the policies the Company believes are the most critical to aid in fully understanding and evaluating its consolidated financial condition and results of operations.

Revenue Recognition

The Company recognizes revenue when there is persuasive evidence that an arrangement exists, delivery of the product has occurred and title has passed, the selling price is both fixed and determinable, and collectability is reasonably assured, all of which generally occur either upon shipment of the Company's product or delivery of the product to the destination specified by the customer.

Accounts Receivable

The Company grants credit to its customers generally in the form of short-term trade accounts receivable. Management evaluates the credit risk of its customers utilizing historical data and estimates of future performance. Accounts receivable are stated at the amount management expects to collect from outstanding balances. When appropriate, management provides for probable uncollectible amounts through a provision for doubtful accounts and an adjustment to a valuation allowance. Management reviews and adjusts this allowance periodically based on the aging of accounts receivable balances, historical write-off experience, customer concentrations, customer creditworthiness, and current industry and economic trends. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Inventories

Inventories are comprised of raw materials, semi-finished goods and finished goods. Inventory costs include material, labor and manufacturing overhead. Inventories are valued at the lower of average cost or market. The average cost of the billets, scrap metal, and finished goods is adjusted monthly.

Income Taxes

The Company uses the asset and liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax-credit carry-forwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amount of assets and liabilities and their tax bases.

The Company's judgments relative to the current provision for income taxes take into account current tax laws, the Company's interpretation of current tax laws and possible outcomes of current and future audits conducted by tax authorities. The Company files income tax returns in the U.S. federal jurisdictions and various state jurisdictions and is subject to U.S. federal tax and state tax examinations for years ranging from 2008 to 2011. The Company's judgments relative to the value of deferred tax assets and liabilities take into account estimates of the amount of future taxable income. Actual operating results and the underlying amount of income in future years could render the Company's current estimates of recoverable net deferred taxes inaccurate. Any of the judgments mentioned above could cause the Company's actual income tax obligations to differ from its estimates, thus materially impacting the Company's financial position and results of operations.

If the Company takes a recognized tax position or has taken a recognized tax position on a tax return that more likely than not would be sustained upon examination by tax authorities, then the Company will

recognize the potential asset or liability in the financial statements. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Management believes that the Company has appropriate support for the income tax positions taken and to be taken on its tax returns and that its accrual for tax liabilities are adequate for all open years based on assessment of many factors, including past experience and interpretation of tax law applied to the facts of each matter.

Results of Operations for the Three and Nine Months Ending June 30, 2012 and 2011

The following table sets forth selected unaudited consolidated statements of operations data for each of the periods indicated on an actual basis and as a percentage of total revenues for the respective periods.

	Three Months Ending June 30,				Nine Months Ending June 30,			
	2012		2011		2012		2011	
Net Sales	$42,119,278	100%	$43,163,486	100%	$125,398,237	100%	$116,130,160	100%
Cost of sales	35,781,337	85%	36,179,436	84%	106,273,613	85%	99,007,745	85%
Gross Profit	6,337,941	15%	6,984,050	16%	19,124,624	15%	17,122,415	15%
Selling	530,542	1%	572,868	1%	1,645,270	1%	1,507,139	1%
General and administrative	1,829,004	4%	2,079,845	5%	5,544,841	4%	5,272,484	5%
Income from operations	3,978,395	10%	4,331,337	10%	11,934,513	10%	10,342,792	9%

For the Three Months Ending June 30, 2012 and 2011

Net Sales

Net sales for the three months ending June 30, 2012 were $42.1 million, a decrease of $1.0 million, or 2%, over net sales of $43.2 million for the three months ending June 30, 2011. The decrease in net sales was primarily attributable to a decrease in tons invoiced of 1,200 tons, or 3%, partially offset by an increase of 0.6% in the average selling price per ton.

Cost of Sales

Cost of sales for the three months ending June 30, 2012 were $35.8 million, a decrease of $398,099, or 1%, over cost of sales of $36.2 million for the three months ending June 30, 2011. Cost of sales as a percentage of sales for the three months ending June 30, 2012 slightly increased from 84% for the three months ending June 30, 2011 to 85%. The decrease in cost of sales was primarily due a slight decrease in the shipping volume.

Gross Profit

Gross profit for the three months ending June 30, 2012 was $6.3 million, a decrease of $646,109, or 9%, over gross profit of $7.0 million for the three months ending June 30, 2011. Gross profit as percentage of sales declined slightly from 16% for the three months ending June 30, 2011 to 15% for the three months ending June 30, 2012. The decrease in gross profit was primarily attributable to lower sales volume.

Selling Expenses

Selling expenses for the three months ending June 30, 2012 were $530,542, a decrease of $42,326, or 7% over selling expenses for the three months ending June 30, 2011 of $572,868. Selling expenses as a percentage of sales for the three months ending June 30, 2012 remained consistent as compared to the three months ending June 30, 2011 at 1%. Selling expenses primarily decreased on an absolute basis as a result of lower commissions related to lower sales revenue.

General and Administrative Expenses

General and administrative expenses for the three months ending June 30, 2012 were $1.8 million, a decrease of $250,841, or 12% over general and administrative expenses of $2.1 million for the three months ending June 30, 2011. General and administrative expenses as a percentage of sales for the three months ending June 30, 2012 decreased from 5% to 4% as compared to the three months ending June 30, 2011. The decrease in general and administrative expenses was primarily attributable to management incentive fees.

For the nine months ended June 30, 2012 and 2011

Net Sales

Net sales for the nine months ending June 30, 2012 were $125.4 million, an increase of $9.3 million, or 8%, over net sales of $116.1 million for the nine months ending June 30, 2011. The increase in net sales was primarily attributable to an increase in tons invoiced of 2,600 tons, or 2%, and an increase of 6% in the average selling price per ton.

Cost of Sales

Cost of sales for the nine months ending June 30, 2012 were $106.3 million, an increase of $7.3 million, or 7%, over cost of sales of $99.0 million for the nine months ending June 30, 2011. Cost of sales as a percentage of sales for the nine months ending June 30, 2012 remained consistent as compared to the nine months ending June 30, 2011 at 85%. The increase in cost of sales was primarily due to price increases in materials, including scrap, alloys and billets and shipping volume.

Gross Profit

Gross profit for the nine months ending June 30, 2012 was $19.1 million, an increase of $2.0 million, or 12%, over gross profit of $17.1 million for the nine months ending June 30, 2011. Gross profit as percentage of sales for the nine months ending June 30, 2012 remained consistent with the nine months ending June 30, 2011 at 15%. The increase in gross profit on an absolute basis was primarily attributable to higher sales volumes and prices.

Selling Expenses

Selling expenses for the nine months ending June 30, 2012 were $1.6 million, an increase of $138,131, or 9% over selling expenses for the nine months ending June 30, 2011 of $1.5 million. Selling expenses as a percentage of sales for the nine months ending June 30, 2012 remained consistent as compared to the nine months ending June 30, 2011 at 1%.

General and Administrative Expenses

General and administrative expenses for the nine months ending June 30, 2012 were $5.5 million, an increase of $272,357, or 5% over general and administrative expenses of $5.2 million for the nine months ending June 30, 2011. General and administrative expenses as a percentage of sales for the nine months ending June 30, 2012 were 4% compared to general and administrative expenses as a percentage of sales for the nine months ending June 30, 2011 of 5%. The increase in general and administrative expenses on an absolute basis was primarily attributable to management incentive fees and costs associated with pollution prevention.

Liquidity and Capital Resources – June 30, 2012

The Company recognized net income of $7.3 million for the nine month period ended June 30, 2012 and generated a positive cash flow from operating activities of $13.1 million for the nine months ended June 30, 2012. The Company used $12.7 million in financing activities and had an accumulated deficit of $307.3 million and a stockholders' deficiency of $19.2 million at June 30, 2012.

The Company recognized net income of $11.4 million for the year ended September 30, 2011 and generated a positive cash flow from operating activities of $8.2 million for the year ended September 30, 2011. The Company used $7.3 million in operating activities and had an accumulated deficit of $314.7 million and a stockholders' deficiency of $26.6 million at September 30, 2011. The Mill relies on cash flows from operations and a secured credit facility with PNC Bank, National Association to fund its operations.

Based on its current level of operations, the Company believes that its current cash resources provided by operations and the Credit Facility will be adequate to fund its operations through June 30, 2013. However, to the extent that the Company's estimates are inaccurate or its assumptions are incorrect, the Company may not have sufficient cash resources to fund its operations. In such event, the Company may have to seek additional financing for the business.

The Company's management may also consider various strategic alternatives in the future, including the acquisition of new business opportunities, which may be from related or unrelated parties. However, there can be no assurances that such efforts will ultimately be successful. The Company may finance any acquisitions through a combination of debt and/or the issuance of equity securities.

As of June 30, 2012, the balance outstanding on the Credit Facility was $11.2 million ($6.7 million under the Revolver and an aggregate of $4.5 million under the Term Loan).

At June 30, 2012, KES was in compliance with all financial covenants under the Credit Facility based on its financial statements.

To the extent that the Mill generates taxable income in the future, the Tax Sharing Agreement with KES will generate cash payments to ALJ equal to 50% of its "separate company tax liability," subject to compliance with the Credit Facility. The tax sharing payment due to ALJ for the nine months ending June 30, 2012 was $829,145. ALJ has approximately $259 million of federal net operating loss carryovers currently available to offset any federal income tax liability of KES in subsequent periods. ALJ expects that its federal net operating loss carry-forwards will be sufficient to absorb most of any future federal income tax liability of KES.

The long-term economic viability of the Mill and its ability to fund its operations and debt service requirements, including maintaining compliance with various debt covenants and servicing the interest and principal obligations under the Credit Facility and Subordinated Financing Agreement and the dividends and redemption features on the Series A Preferred Stock issued in connection with the acquisition of the Mill, is dependent on various internal and external factors, including the Mill's ability to operate on a sustained basis at 45% or more of its annual capacity of 200,000 tons per year, as currently configured. To the extent that the Mill is not able to maintain an appropriate operating threshold, the ability of the Mill to generate sufficient cash flows to fund its operations and debt service requirements and maintain compliance with various debt covenants may be impaired.

Operating Activities

During the nine months ending June 30, 2012, the Company generated $13.1 million from operating activities, primarily attributable to net income of $7.3 million and a decrease in inventory of $2.1 million.

Financing Activities

For the nine months ending June 30, 2012, the Company used $12.7 million in financing activities primarily attributable to the partial repayment of $10.0 million against the line of credit, partial repayment of $1.5 million against the Term Loan, full repayment of $535,208 against the Lake Forest term loan, interest payments of $1.5 million on the 8% subordinated loans, and $833,790 of principal payments against the 8% subordinated loans.

Principal Commitments

At June 30, 2012, the Company's principal commitments consisted of the following obligations:

		Payments Due by 12 Month Periods Ending June 30, (in thousands)				
Contractual cash obligations	**Total**	**2013**	**2014**	**2015**	**2016**	**Thereafter**
8% Subordinated loans	19,242	---	---	---	---	19,242
Term loan – PNC	4,500	2,000	2,000	500	---	---
Revolver – PNC	6,705	---	---	6,705	---	---
Operating leases	1,594	724	724	89	45	12
Capital lease obligation	32	32	---	---	---	---
Management services agreement	2,275	700	700	700	175	---
13% Series A Preferred Stock of subsidiary subject to mandatory redemption, including accrued dividends	11,609	---	---	---	---	11,609
Total contractual cash obligations	$ 45,957	$ 3,456	$ 3,424	$ 7,994	$ 220	$ 30,863

At June 30, 2012, the Company did not have any material commitments for capital expenditures.

At June 30, 2012, the Company has various short-term commitments for the purchase of materials, supplies and energy arising in the ordinary course of business which aggregated approximately $3.4 million.

Off-Balance Sheet Arrangements

The Company does not have any transactions, obligations or relationships that could be considered off-balance sheet arrangements at June 30, 2012.

ITEM 5. LEGAL PROCEEDINGS

From time to time the Company may be involved in litigation arising from its activities. Presently the Company is not involved in any material litigation.

ITEM 6. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 7. OTHER INFORMATION

On July 27, 2012, the ALJ Board of Directors agreed to a one-time modification to the annual director compensation program. The program provides for annual compensation of $12,500 in cash and $12,500 in stock at the time of the annual stockholder meeting. The directors determined that it was in the best interest of the Company to pay all of the compensation in cash for 2012.

The annual meeting of stockholders of ALJ (the "Annual Meeting") was held on July 27, 2012. At the Annual Meeting, ALJ's stockholders voted:

- to re-elect Jess M. Ravich as the one Class III director to hold office until ALJ's 2015 annual meeting of stockholders or until his successor is elected and duly qualified or until his earlier resignation or removal;
- to ratify the appointment of Mountjoy Chilton Medley LLP, formerly known as Mountjoy & Bressler, LLP ("Mountjoy"), as the independent registered public accounting firm for KES (and, if ALJ were to proceed with a Listing (as defined below), to ratify the appointment of Mountjoy as the independent registered public accounting firm for ALJ as well) for the fiscal year ending September 30, 2012;

- to recommend, on an advisory basis, that ALJ take all actions necessary and appropriate, in the discretion of its Board of Directors, to pursue and effect the listing of its common stock on a national securities exchange (*e.g.*, The Nasdaq Stock Market, NYSE Amex LLC or such other exchange as is determined by ALJ's Board of Directors) (the "Listing"), subject to ALJ satisfying the initial listing standards of such exchange; and

- to approve in connection with effecting the Listing an amendment to ALJ's certificate of incorporation to effect a reverse stock split of its common stock by a ratio of between 13-1 to 20-1, as determined by ALJ's Board of Directors, such that upon filing of the Certificate of Amendment with the Secretary of State of the State of Delaware, for every thirteen (13) to twenty (20) shares of common stock of ALJ outstanding immediately preceding the filing of such Certificate of Amendment, as determined by ALJ's Board of Directors, one (1) share of common stock shall be outstanding.

RISK FACTORS

The following risk factors and other information included in this Report should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks actually occur, our business, financial condition and operating results could be significantly harmed.

Risks Related to Our Business

Payments under our Tax Sharing Agreement are uncertain.

Our subsidiary, KES is included in the consolidated federal income tax return filed by ALJ as the common parent. KES has entered into a Tax Sharing Agreement with ALJ, pursuant to which it has agreed to pay ALJ an amount equal to 50% of its "separate company tax liability" (as defined in the agreement), subject to compliance with the Credit Facility. Periodic tax sharing payments from KES are currently the sole source of funds distributed to ALJ from the operations of the Mill. The tax sharing payments are necessary to fund corporate overhead at the ALJ level and the receipt of such payments is dependent upon the availability of sufficient cash resources from Mill operations. There can be no assurance that there will be sufficient levels of cash resources generated from Mill operations to support tax sharing payments or to pay our operating expenses.

Our industry is cyclical and prolonged economic declines could have a material adverse effect on our business.

Demand for most of our products is cyclical in nature and sensitive to general economic conditions. Our business supports cyclical industries such as commercial construction, energy, and manufacturing all of which have been adversely impacted by the recent economic downturn. As a result, our results of operations and cash flows may suffer. Because steel mills generally have high fixed costs, reduced volumes result in operating inefficiencies. A further decline in the U.S. economy could materially adversely affect our business, results of operations and financial condition and cash flows.

Our level of production and our sales and earnings are subject to significant fluctuations.

The U.S. steel industry recently experienced a significant economic downturn. This decline led to deterioration in backlog and, therefore, overcapacity in producing mills worldwide.

The price of steel and steel products may fluctuate significantly due to many factors beyond our control. Such fluctuation would directly affect our levels of production, sales and earnings. The domestic steel industry has been highly cyclical in nature, influenced by a combination of factors, including periods of economic growth or recession, strength or weakness of the U.S. dollar, worldwide production capacity,

levels of steel imports and applicable tariffs. The demand for steel products is generally affected by macroeconomic fluctuations in the U.S. and the global economies in which steel companies sell their products. We have experienced a drop in demand for our products as a result of the current economic downturn and further economic decline, stagnation, or currency fluctuations could further decrease the demand for products or increase the amount of imports of steel into the U.S., which could negatively impact our sales, margins and profitability. In addition, prolonged weakness in any industries in which we sell our products could materially adversely affect our results of operations and cash flows.

Our business requires maintenance expenditures and may require capital investment which we may be unable to provide.

We require capital for, among other purposes, maintaining the condition of KES' existing equipment and maintaining compliance with environmental laws and regulations. From time to time, KES may also require capital to acquire new equipment. To the extent that cash generated internally and cash available under our credit facility is not sufficient to fund capital requirements, KES will require additional debt and/or equity financing. However, this type of financing may not be available or, if available, may not be on satisfactory terms, particularly given the current credit crisis. Future debt financings, if available, will require the approval of KES' existing lenders and may result in increased interest and amortization expense. In addition, future debt financings by KES may limit our ability to withstand competitive pressures and render us more vulnerable to economic downturns. If KES fails to generate or obtain sufficient additional capital in the future, KES could be forced to reduce or delay capital expenditures, sell assets or restructure or refinance its indebtedness, which in turn would also have an adverse effect on the amount of the tax sharing payments KES makes to us.

Unexpected equipment failures or unanticipated events may lead to production curtailments or shutdowns resulting in lost revenues and increased costs.

Interruptions in production capabilities will inevitably increase production costs and reduce KES' sales and earnings. KES' manufacturing processes depend on critical pieces of steelmaking equipment, such as furnaces, continuous casters and rolling equipment, as well as electrical equipment, such as transformers, and this equipment may, on occasion, be out of service as a result of unanticipated failures. In the future, KES may experience material plant shutdowns or periods of reduced production as a result of equipment failures. Furthermore, any interruption in production capability may require KES to make large capital expenditures to remedy the situation, which could have a negative effect on our profitability and cash flows. In addition to equipment failures, KES' facilities are also subject to the risk of catastrophic loss due to unanticipated events such as fires, explosions, adverse weather conditions or transportation interruptions. KES maintains business interruption insurance to offset these potential lost revenues or increased costs; however, there can be no assurance that our coverage is sufficient to fully offset the lost revenues or increased costs that we may experience. In addition to the revenue losses, longer-term business disruption could result in a loss of customers. If this were to occur, KES' future sales levels, and therefore profitability and cash flows, could be adversely affected, which in turn would also have an adverse effect on the amount of the tax sharing payments KES makes to us.

Competition from other materials may materially adversely affect our business.

In many applications, steel competes with other materials, such as aluminum, cement, composites, glass, plastic and wood. Increased use of these materials in substitution for steel products could materially adversely affect prices and demand for KES' steel products.

Environmental regulations impose substantial costs and limitations on operations.

KES is subject to various federal, state and local environmental, health and safety laws and regulations, and is required to maintain numerous permits and governmental approvals for operation, concerning issues such as air emissions, wastewater discharges, solid and hazardous waste management and disposal and the investigation and remediation of contamination. These laws and regulations are becoming increasingly stringent. While we believe that KES' facilities are in material compliance with all permits, governmental

approvals, applicable environmental laws and regulations, the risks of substantial unanticipated costs and liabilities related to compliance with these permits, governmental approvals, laws and regulations are an inherent part of KES' business. It is possible that future conditions may develop, arise or be discovered that create new environmental compliance or remediation liabilities and costs. While we believe that we can comply with environmental legislation and regulatory requirements and that the costs of compliance have been included within budgeted cost estimates, compliance may prove to be more limiting and costly than anticipated. There can also be no assurance that KES' facilities will continue to operate in accordance with the conditions and restrictions established by the permits or approvals. Similarly, we cannot assure you that the requirements contained in such permits will not change or that KES' facilities will be able to renew or to maintain all permits and approvals required for continued operation of the facilities.

If any substances are found at KES' facilities that are classified by applicable environmental laws, ordinances or regulations as hazardous materials, we could become liable for the investigation and removal of those substances, regardless of their source. Failure to comply with these laws, ordinances or regulations, or any change in the requirements of these laws, ordinances or regulations could result in liabilities, imposition of cleanup liens and fines and large expenditures to bring the facilities into compliance. We may also be subject from time to time to legal proceedings brought by private parties or governmental agencies with respect to environmental matters, including matters involving alleged property damage or personal injury.

The potential presence of radioactive materials in the scrap that we melt in our electric arc furnaces presents significant risks.

The potential presence of radioactive materials in our scrap supply presents significant economic risks. The cost to clean up the contaminated material and the loss of revenue resulting from the loss in production time could be material to our business, results of operations and financial condition. While we have three detection devices at the Mill, radioactive scrap could go undetected. If we fail to detect radioactive material in the scrap we receive, we may incur significant costs to clean up the contamination of our facilities and to dispose of the contaminated material, which could have a material adverse effect on our results of operation and financial condition. In addition, there can be no assurance that we will have sufficient financial resources to fund the cleanup costs in such event, which could result in a potential suspension or curtailment of operations at the Mill.

The results of our operations are sensitive to volatility in steel prices and changes in the cost of raw materials, particularly scrap steel.

We rely, to a substantial extent, on outside vendors to supply KES with raw materials that are critical to the manufacture of its products. KES acquires its primary raw material, steel scrap, from brokers. Although we believe that the supply of scrap is adequate to operate KES' facilities, we are subject to risks due to the volatility of the purchase prices of this critical raw material.

At any given time, KES may be unable to obtain an adequate supply of scrap at a price and other terms acceptable to it. Additionally, any change in KES' relationship with its scrap brokers could make it more difficult or costly for it to obtain scrap, which could have an adverse impact on our financial condition and results of operations.

If KES' suppliers increase the price of its critical raw materials, it may not be able to locate alternative sources of supply. If KES is unable to obtain adequate and timely deliveries of its required raw materials, KES may be unable to timely and cost effectively manufacture sufficient quantities of its products. This could cause KES to lose sales, incur additional costs and suffer harm to its reputation, financial condition and results of operations, which in turn would also have an adverse effect on the amount of tax sharing payments KES makes to us. These tax sharing payments are ALJ's sole source of cash to pay its operating expenses.

If demand and prices for steel deteriorate, KES' sales may decline and it may be required to recognize losses on the carrying value of its inventory. KES was not required to make any lower of cost or market adjustments to the carrying value of its inventory for the nine months ended June 30, 2012.

The availability and cost of electricity and natural gas are subject to volatile market conditions that could adversely affect our business.

Our Mill is a large consumer of electricity and natural gas. KES relies upon third parties for the supply of energy resources consumed in the manufacture of its products. The prices for and availability of electricity, natural gas, oil and other energy resources are subject to volatile market conditions. These market conditions often are affected by weather, political and economic factors, all of which are beyond our control. Disruptions in the supply of the energy resources could temporarily impair KES' ability to manufacture its products. Additionally, increases in energy costs could materially adversely affect KES' business, results of operations, financial condition and cash flows, which in turn would also have an adverse effect on the amount of tax sharing payments KES makes to us. These tax sharing payments are ALJ's sole source of cash to pay its operating expenses.

Mill management may be difficult to replace if they leave.

Management of the Mill is currently conducted by employees of Pinnacle pursuant to the Management Agreement which expires on September 30, 2015, subject to earlier termination or extension based on the performance of the Mill. Our operations and prospects depend in large part on the performance of our Mill management team. The loss of the services of one or more members of our Mill management team or the inability to attract, retain and maintain qualified additional Mill management personnel could harm our business, financial condition, results of operations and future prospects.

Our production and earnings could be reduced by strikes or work stoppages by our employees.

As of June 30, 2012, the Mill employed 149 individuals. If the Mill employees were to strike or we faced similar work stoppages we would experience a disruption of production at our facility, which would cause an adverse impact on our operating costs and results of operations.

Our level of indebtedness and other demands on our cash resources could materially adversely affect our ability to execute our business strategy.

Our total liabilities minus minority interest are approximately $60.3 million on a consolidated basis as of June 30, 2012. Subject to the limits contained in our Credit Facility and Subordinated Financing Agreement, we may also incur additional debt in the future. In addition to interest and principal payments on our outstanding debt and dividends and repurchase obligations with respect to our preferred stock, we, and in particular KES, have other demands on our cash resources, including, among others, capital expenditures that may arise from time to time and operating expenses.

Our significant indebtedness levels and other demands on our cash resources could have a material effect on our operations and our ability to execute our business strategy. Specifically, our debt has the following impacts on our operations, among others:

- Except for periodic tax sharing payments, all of KES' cash flows must be used to fund its operations and service its debt obligations, including interest, dividends, required principal payments, and required preferred stock repurchase obligations, and therefore is not available for use in KES' business, including working capital needs;

- Our ability to obtain additional debt financing for working capital, capital expenditures, general corporate purposes or other purposes could be impaired by the terms and amount of KES' existing debt and if additional funding is required we may be required to seek additional equity financings, which may have a dilutive impact on our existing stockholders or may not be unavailable on acceptable terms or at all;

- Our failure to comply with restrictions and covenants contained in the terms of our debt agreements, in particular the Credit Facility and Subordinated Financing Agreement, could lead to a default which could cause all or a significant portion of our debt to become immediately payable; if such default is not cured or waived, our lenders could foreclose on our assets, which could result in a complete loss of our stockholders' investments;

- Restrictions in our debt agreements could limit our flexibility in planning for, or reacting to, changes in the industries in which we compete;

- Our level of indebtedness could place us at a competitive disadvantage compared to our competitors, some of which have less debt service obligations and greater financial resources than we do; and

- Our level of indebtedness could increase our vulnerability to general adverse economic and industry conditions.

To service our indebtedness, we will require a significant amount of cash, and our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on our indebtedness and to fund any future capital expenditures required by KES will depend on our ability to generate cash in the future. This, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

We cannot assure you that KES' business will generate sufficient cash flow from operations, or that future borrowings will be available to us under the Credit Facility in an amount sufficient to enable us to pay our indebtedness, or to fund our other liquidity needs. We may need to refinance all or a portion of our indebtedness, on or before maturity. We cannot assure you that we will be able to refinance any of our indebtedness, including the Credit Facility, on commercially reasonable terms or at all, particularly given the current state of credit markets.

We have variable rate indebtedness that subjects us to interest rate risk, which could cause our annual debt service obligations to increase significantly.

A portion of our current borrowings, namely the Credit Facility ($6.7 million Revolver and $4.5 million Term Loan at June 30, 2012), and potential future borrowings, are and may continue to be at variable rates of interest, thus exposing us to interest rate risk. If interest rates increase, our debt service obligations on our variable rate indebtedness would increase even if the amount borrowed remained the same, resulting in a decrease in our net income. For example, if interest rates increased in the future by 100 basis points, based on our current borrowings as of June 30, 2012, we would incur approximately an additional $28,000 per quarter in interest expense.

Our net operating loss carry-forwards could be substantially limited if we experience an "ownership change" as defined in Section 382 of the Internal Revenue Code.

Our ability to utilize NOLs and tax credit carry-forwards to offset our future taxable income and/or to recover previously paid taxes would be limited if we were to undergo an "ownership change" within the meaning of Section 382 of the Code.

Section 382 of the Code contains rules that limit the ability of a company that undergoes an "ownership change," which is generally any change in ownership of more than 50% of its stock over a three-year period, to utilize its NOLs and certain built-in losses recognized in years after the ownership change. These rules generally operate by focusing on ownership changes among stockholders owning directly or indirectly 5% or more of the stock of a company and any change in ownership arising from a new issuance of stock by the company.

If we undergo an ownership change for purposes of Section 382 as a result of future transactions involving our common stock, including purchases or sales of stock between 5% shareholders, our ability to use our NOLs and to recognize certain built-in losses would be subject to the limitations of Section 382. Depending on the resulting limitation, a significant portion of our NOLs could expire before we would be able to use them. We had approximately $259 million of (pre-tax) NOLs as of June 30, 2012. The NOLs do not begin to expire until 2020 and are available to be used at some level through 2025. Our inability to utilize our NOLs could have a negative impact on our financial position and results of operations.

We do not believe we have experienced an "ownership change" as defined by Section 382 in the last three years. However, whether a change in ownership occurs in the future is largely outside of our control, and there can be no assurance that such a change will not occur.

In May 2009, we announced that our Board adopted a shareholder rights plan designed to preserve stockholder value and the value of certain tax assets primarily associated with NOLs and built in losses under Section 382 of the Code.

We also amended our certificate of incorporation to add certain restrictions on transfers of our stock that may result in an ownership change under Section 382.

Our ability and the ability of KES to engage in some business transactions may be limited by the terms of our debt.

The Subordinated Financing Agreement and Credit Facility contain a number of financial covenants requiring KES to meet financial ratios and financial condition tests, as well as covenants restricting its ability to:

- incur additional debt;
- make certain capital expenditures;
- incur or permit liens to exist;
- enter into transactions with affiliates;
- guarantee the debt of other entities, including joint ventures;
- merge or consolidate or otherwise combine with another company; and
- transfer or sell our assets.

KES' ability to borrow under the Credit Facility will depend upon its ability to comply with certain covenants and borrowing base requirements. Its ability to meet these covenants and requirements may be affected by events beyond its control and it may not meet these obligations. The failure of KES to comply with these covenants and requirements could result in an event of default under the Credit Facility or Subordinated Financing Agreement that, if not cured or waived, could terminate its ability to borrow further, permit acceleration of the relevant debt (and other indebtedness based on cross default provisions) and permit foreclosure on any collateral granted as security under the Credit Facility or Subordinated Financing Agreement. There can also be no assurance that the lenders will grant waivers on covenant violations, if they occur. Any such event of default would have a material adverse effect on us as KES is our principal asset and cash we receive through our tax sharing payments from KES is our sole source of cash to pay our operating expenses.

We rely upon a small number of major customers for a substantial percentage of our sales.

A loss of any large customer or group of customers could materially reduce our sales and earnings. We have substantial business relationships with a few large customers. For the nine month period ending June 30, 2012, the Company had 3 customers that accounted for approximately 22% of net sales. We expect to continue to depend upon a small number of customers for a significant percentage of our net sales, and cannot assure you that any of them will continue to purchase steel from us.

Our internal controls and procedures may be deficient.

Our internal controls and procedures may be subject to deficiencies or weaknesses. Remedying and monitoring internal controls and procedures distracts our management from its operations, planning, oversight and performance functions, which could harm our operating results. Additionally, any failure of our internal controls or procedures could harm our operating results or cause us to fail to meet our obligation to maintain adequate public information.

We may have unknown liabilities stemming from YouthStream Media Networks, Inc.'s historical operations.

There may have been liabilities that stem from YouthStream Media Networks, Inc.'s historical operations of which we are not aware. In the event any such liability becomes known, it may lead to claims against us, including, but not limited to, lawsuits, administrative proceedings, and other claims. Any such liabilities may subject us to increased expenses for attorneys' fees, fines and litigation and expenses associated with any subsequent settlements or judgments. There can be no assurance that such unknown liabilities do not exist. To the extent that such liabilities become known, any such liability-related expenses may materially and adversely affect our profitability, operating results and financial condition.

We may encounter difficulties in acquiring other companies.

We acquired the Mill effective March 1, 2005 and may in the future acquire other companies. If we identify suitable candidates, we may not be able to make investments or acquisitions on commercially acceptable terms. Acquisitions may cause a disruption in our ongoing business, distract management, require other resources and make it difficult to maintain our standards, controls and procedures. We may not be able to retain key employees of the acquired companies or maintain good relations with their clients or suppliers. We may be required to incur additional debt and to issue equity securities to effect and/or fund acquisitions, which may be dilutive to existing stockholders.

We cannot assure you that any acquisitions we make will enhance our business.

We cannot assure you that any completed acquisition will enhance our business. Since we anticipate that acquisitions could be made with both cash and our common stock, the potential impacts that may arise if we consummate one or more significant acquisitions may include:

- a substantial portion of our available cash could be used to consummate the acquisitions and/or we could incur or assume significant amounts of indebtedness; and
- our stockholders could suffer significant dilution of their interest in our common stock.

Also, we are required to account for acquisitions under the purchase method, which would likely result in our recording significant amounts of goodwill or other tangible and intangible assets. The inability of a subsidiary to sustain profitability may result in an impairment loss in the value of long-lived assets, principally goodwill and other tangible and intangible assets, which would adversely affect our financial statements.

Decreases in the demand for steel could have a material adverse impact on our business.

The U.S. steel industry has recently experienced a significant economic downturn. This decline has led to deterioration in backlog and, therefore, excess capacity in producing mills worldwide, which has already resulted in a corresponding decrease in our sales and may adversely impact our sales, financial condition and results of operations going forward. Further, while we operate in the U.S., the global steel industry has suffered significant deterioration in demand, which has had an adverse affect on steel prices in the U.S.

We may face significant price and other forms of competition from other steel producers, which could have a material adverse effect on our business, financial condition, results of operation or prospects.

The global markets in which steel companies conduct business are highly competitive. Increased competition could cause us to lose market share or reduce pricing, either one of which could have a material adverse effect on our business, financial condition, results of operations or prospects. We compete primarily on the basis of price, quality and the ability to meet our customers' product needs and delivery schedules. Some of our competitors may have advantages due to greater capital resources, different technologies, lower raw material costs, lower energy costs or favorable exchange rates.

Risks Related to our Common Stock

Even though our stockholders voted to recommend, on an advisory basis, that we pursue a Listing, we may decide not to pursue a Listing.

As disclosed above, at our 2012 annual meeting of stockholders, our stockholders voted to recommend, on an advisory basis, that we take all actions necessary and appropriate to pursue and effect a Listing subject to our satisfying the initial listing standards of an exchange. For a variety of reasons, including but not limited to the following, we may not effect such a Listing:

- external market factors that may make a Listing impracticable or impossible;
- listing standards or qualifications that we cannot satisfy; or
- cost, timing or other business considerations that may determine that it is necessary or advisable not to pursue a Listing at this time or at all.

In order to qualify our stock for a Listing, among other things, we may effectuate a reverse stock split, which could adversely affect our stockholders.

In order to qualify our stock for a Listing, we likely would need to effectuate a reverse stock split. Our common stock currently trades below the price that would satisfy the initial listing standards of certain national securities exchanges in connection with a Listing. A reverse stock split would reduce the number of outstanding shares of our capital stock, which could increase the per share trading price sufficient to meet the initial listing standards of such exchanges.

Our stockholders have voted to approve in connection with effecting a Listing an amendment to our certificate of incorporation to effect a reverse stock split of our common stock by a ratio of between 13-1 to 20-1, as determined by our Board of Directors. We cannot assure you that our stock price will not be negatively affected if a reverse stock split is effected. Some investors, analysts and other stock market participants have a negative perception of reverse stock splits, which may adversely affect the liquidity and trading price of our common stock.

There may also be an adverse effect on liquidity caused by a reduced number of shares issued and outstanding after the reverse stock split. If a reverse stock split is effected, our stockholders will own a fewer number of shares than they currently own (a number equal to the number of shares owned immediately prior to the reverse stock split divided by the applicable number within the approved range). A reverse stock split may result in some stockholders owning "odd lots" of less than 100 shares of our common stock. Odd lot shares may be more difficult to sell, and brokerage commissions and other costs of transactions in odd lots may be somewhat higher than the costs of transactions in "round lots" of even multiples of 100 shares. A decrease in liquidity may adversely affect the trading price of our common stock.

Even if we effectuate a reverse stock split, we may not meet the qualifications of a national securities exchange for a Listing.

A reverse stock split may not increase the per share price of our common stock in proportion to the reduction in the number of shares of our common stock outstanding or result in a permanent increase in the

per share price (which depends on many factors, including our performance, prospects and other factors that may be unrelated to the number of shares outstanding). The stock price of some companies that have effected reverse stock splits has subsequently declined back to pre-reverse stock split levels. Further, other factors such as our financial results, market conditions, the state of our industry and the market perception of our business may adversely effect the market price of our common stock. As a result, there can be no assurance that the price of our common stock would be maintained at the per share price in effect immediately following the effective time of the reverse stock split.

Further, even if our stock price satisfies an exchange's minimum bid price listing requirements, we may fail to meet other listing requirements or fail to meet continued listing standards.

We expect to be subject to substantial costs associated with a Listing and ongoing compliance.

We expect to be subject to significant costs in connection with a Listing. In order to satisfy the initial listing requirements of a national securities exchange, we will need to register our common stock with the U.S. Securities and Exchange Commission (the "SEC") by filing a registration statement and becoming a reporting company under the Securities Exchange Act of 1934 (the "Exchange Act"). We may incur significant accounting and legal fees in preparing a registration statement, and significant SEC filing fees, financial printer expenses, transfer agent fees and exchange fees in effecting a Listing. Further, prior to the fiscal year ending September 30, 2012, Mountjoy's audit has been limited to KES. Our consolidated financial statements were prepared and certified by management and not audited by Mountjoy. In connection with filing a registration statement, we will need to obtain an audit at the ALJ level for its prior two fiscal years (*i.e.*, the fiscal years ended September 30, 2011 and 2010), which would result in substantial costs.

Once a Listing is completed and we are operating as an Exchange Act reporting company and trading on a national securities exchange, we would continue to incur substantial costs as we comply with the rules and regulations promulgated by both the SEC and the national securities exchange. For example, the Sarbanes-Oxley Act of 2002 would impose costly requirements, including management reporting on the adequacy of internal control over financial reporting. Exchange Act reporting companies are also required to file current and periodic reports, which would require the continued involvement of legal counsel. Although we currently provide annual and quarterly reports, we are not subject to many Exchange Act requirements, and becoming compliant with such requirements could be costly. Also, there would be continuing audit fees for annual audits and review of interim financial statements. Such costs incurred in connection with a Listing and ongoing compliance may have an adverse effect on our business, results of operations and financial condition and cash flows. Also, in connection with our filing with the SEC, the SEC may review our treatment of our net operating loss carry-forwards and may preclude us from placing sufficient value on those carry-forwards to meet the listing standards of the exchanges. In such event we would not have a Listing but would remain subject to the ongoing compliance costs of being an Exchange Act reporting company.

Our common stock is illiquid and stockholders may be unable to sell their shares.

Our common stock is currently quoted on the "Pink Sheets" under the symbol "ALJJ.PK." There is currently only a limited market for our common stock and we can provide no assurance to investors that a more robust market will develop. If a broader market for our common stock does not develop, our stockholders may encounter difficulties selling their common stock from time to time. We do not have the ability to uplist our stock on NASDAQ, the NYSE or the AMEX exchanges because we do not meet the qualifications for listing on those exchanges at this time.

Our stock is a penny stock and, as a result, our stockholders are more limited in their ability to sell their stock.

The Securities and Exchange Commission has adopted rules that regulate broker-dealer practices in connection with the sale of penny stocks, or low-priced securities other than securities registered on certain exchanges, to persons other than established customers and institutional accredited investors. Because our

securities constitute penny stocks within the meaning of the rules, the rules apply to us and our securities. For transactions covered by these rules, prior to effecting a transaction in a penny stock, a broker-dealer must, among other things: (a) make a special suitability determination for the purchaser; (b) deliver a standardized risk disclosure document to the customer; (c) receive written acknowledgement of the receipt of the disclosure statement; (d) provide to customers current bids and offers, including the number of shares to which such bid and offer prices apply; (e) disclose to customers the broker-dealer and sales representation compensation; and (f) receive the purchaser's written consent to the transaction prior to the sale. These suitability requirements and disclosure requirements may have the effect of reducing the trading activity in the secondary market for our stock.

Volatility in the market price of our common stock.

The market price of our common stock could fluctuate substantially in the future in response to a number of factors, including the following:

- our quarterly operating results or the operating results of other companies in the steel industry;
- changes in general conditions in the economy, the financial markets or the steel industry;
- announcements by us or our competitors of significant acquisitions; and
- increases in raw materials and other costs.

In addition, in recent years the stock market has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated to their operating performance. These broad market fluctuations may materially adversely affect our stock price, regardless of our operating results.

We do not currently plan to pay dividends to holders of our common stock.

We do not currently anticipate paying cash dividends to the holders of our common stock. Accordingly, holders of our common stock must rely upon price appreciation as the sole method to realize a gain on their investment. There can be no assurances that the price of our common stock will ever appreciate in value.

The anti-takeover provisions of our stockholders rights plan may have the effect of delaying or preventing beneficial takeover bids by third parties.

We have a stockholder rights plan (the "Rights Plan") designed to preserve the value of certain tax assets primarily associated with our NOLs and built in losses under Section 382. At June 30, 2012, the Company had approximately $259 million in net operating losses and the use of such losses to offset federal income tax would be limited, if the Company experiences an "ownership change" under Section 382. This would occur if stockholders owning (or deemed under Section 382 to own) 5% or more of the Company's stock by value increase their collective ownership of the aggregate amount of the Company's stock by more than 50 percentage points over a defined period of time. The Rights Plan was adopted to reduce the likelihood of an "ownership change" occurring as defined by Section 382.

In connection with the Rights Plan, the Company declared a dividend of one preferred share purchase right for each share of its common stock outstanding as of the close of business on May 21, 2009. Pursuant to the Rights Plan, any stockholder or group that acquires beneficial ownership of 4.9 percent or more of the Company's outstanding stock (an "Acquiring Person") without the approval of the Company's Board would be subjected to significant dilution of its holdings. Any existing stockholder holding 4.9% or more of the Company's stock will not be considered an Acquiring Person unless such stockholder acquires additional stock of the Company; provided, however, that existing stockholders actually known to the Company to hold 4.9% or more of its stock as of April 30, 2009 are permitted to purchase up to an additional 5% of the Company's stock without triggering the Rights Plan. In addition, in its discretion, the Board may exempt certain persons whose acquisition of securities is determined by the Board not to jeopardize the Company's deferred tax assets and may also exempt certain transactions. The Rights Plan will continue in effect until May 13, 2019, unless it is terminated or redeemed earlier by the Board.

While the Rights Plan is intended to protect our NOLs and built-in losses under Section 382, it may also have the effect of delaying or preventing beneficial takeover bids by third parties.

ITEM 8. EXHIBITS

A list of exhibits required to be filed as part of this report is set forth in the Index to Exhibits, which immediately precedes such exhibits, and is incorporated herein by reference.

PART E

EXHIBITS

Exhibit No.	Description
1*	First Amendment to Restated Certificate of Incorporation of ALJ Regional Holdings, Inc. as filed with the Secretary of State of the State of Delaware on June 1, 2010.
2	Restated Certificate of Incorporation of ALJ Regional Holdings, Inc. as filed with the Secretary of State of the State of Delaware on June 16, 2009 (incorporated by reference to Exhibit 1 to the Company's Quarterly Report for the quarter ended June 30, 2009 available at www.pinksheets.com.).
3	Certificate of Ownership and Merger of YouthStream Media Networks, Inc. as filed with the Secretary of State of the State of Delaware on October 23, 2006. (incorporated by reference to Exhibit 2 to the Company's Annual Report available at www.pinksheets.com posted on January 15, 2007)
4	Restated Bylaws of ALJ Regional Holdings, Inc. (incorporated by reference to Exhibit 7 to the Company's Quarterly Report for the quarter ended March 31, 2009 available at www.pinksheets.com.)
5	YouthStream Media Networks, Inc. 2000 Stock Incentive Plan (incorporated by reference to Exhibit 10.28 to YouthStream's Form 10-KSB filed with the SEC for the fiscal year ended June 30, 1999).
6**	First Amendment to the Amended and Restated Management Services Agreement by and between KES Acquisition Company and Pinnacle Steel, LLC dated February 23, 2007.
7	Amended and Restated Management Services Agreement, February 28, 2005, by and between KES Acquisition Company, LLC and Pinnacle Steel, LLC (incorporated by reference to Exhibit 10.83 to YouthStream's Form 8-K, filed with the SEC on March 14, 2005).
8**	Amended and Restated Tax Sharing Agreement by and between the ALJ Regional Holdings, Inc. and KES Acquisition Company.
9	Rights Agreement dated May 13, 2009 by and between ALJ Regional Holdings, Inc. and American Stock Transfer and Trust Company, LLC (incorporated by reference to Annex B to ALJ Regional Holdings proxy statement dated May 15, 2009 available at www.pinksheets.com).
10****	Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated as of September 30, 2011, by and among KES, the financial institutions from time to time a party thereto and PNC as a lender and agent for the lenders.
11*	Second Amendment to the Amended and Restated Management Services Agreement by and between KES Acquisition Company and Pinnacle Steel, LLC dated May 28, 2010.
12****	Third Amendment to the Amended and Restated Management Services Agreement by and between KES Acquisition Company and Pinnacle Steel, LLC dated September 30, 2011.

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*	Filed with the Company's Quarterly Report for the period ended June 30, 2010.
**	Filed with the Company's Quarterly Report for the period ended March 31, 2007.
***	Filed with the Company's Quarterly Report for the period ended June 30, 2009.
****	Filed with the Company's Annual Report for the period ended September 30, 2011.

ITEM 9. CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

Certification of the Chief Executive Officer

I, John Scheel, hereby certify that:

1. I have reviewed this quarterly disclosure statement of ALJ Regional Holdings, Inc. for the fiscal quarter ended June 30, 2012;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements and other financial information included or incorporated by reference in this disclosure statement, fairly present, in all material respects, the financial condition, results of operations and cash flows of ALJ Regional Holdings, Inc., as of, and for, the fiscal quarter ended June 30, 2012.

Date: August 14, 2012

/S/ John Scheel
John Scheel,
Chief Executive Officer

Certification of the Chief Financial Officer

I, T. Robert Christ, hereby certify that:

1. I have reviewed this quarterly disclosure statement of ALJ Regional Holdings, Inc. for the fiscal quarter ended June 30, 2012;

2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and

3. Based on my knowledge, the financial statements and other financial information included or incorporated by reference in this disclosure statement, fairly present, in all material respects, the financial condition, results of operations and cash flows of ALJ Regional Holdings, Inc., as of, and for, the fiscal quarter ended June 30, 2012.

Date: August 14, 2012

/S/ T. Robert Christ
T. Robert Christ,
Chief Financial Officer